# AMERICAN BANKERS Association JOURNAL

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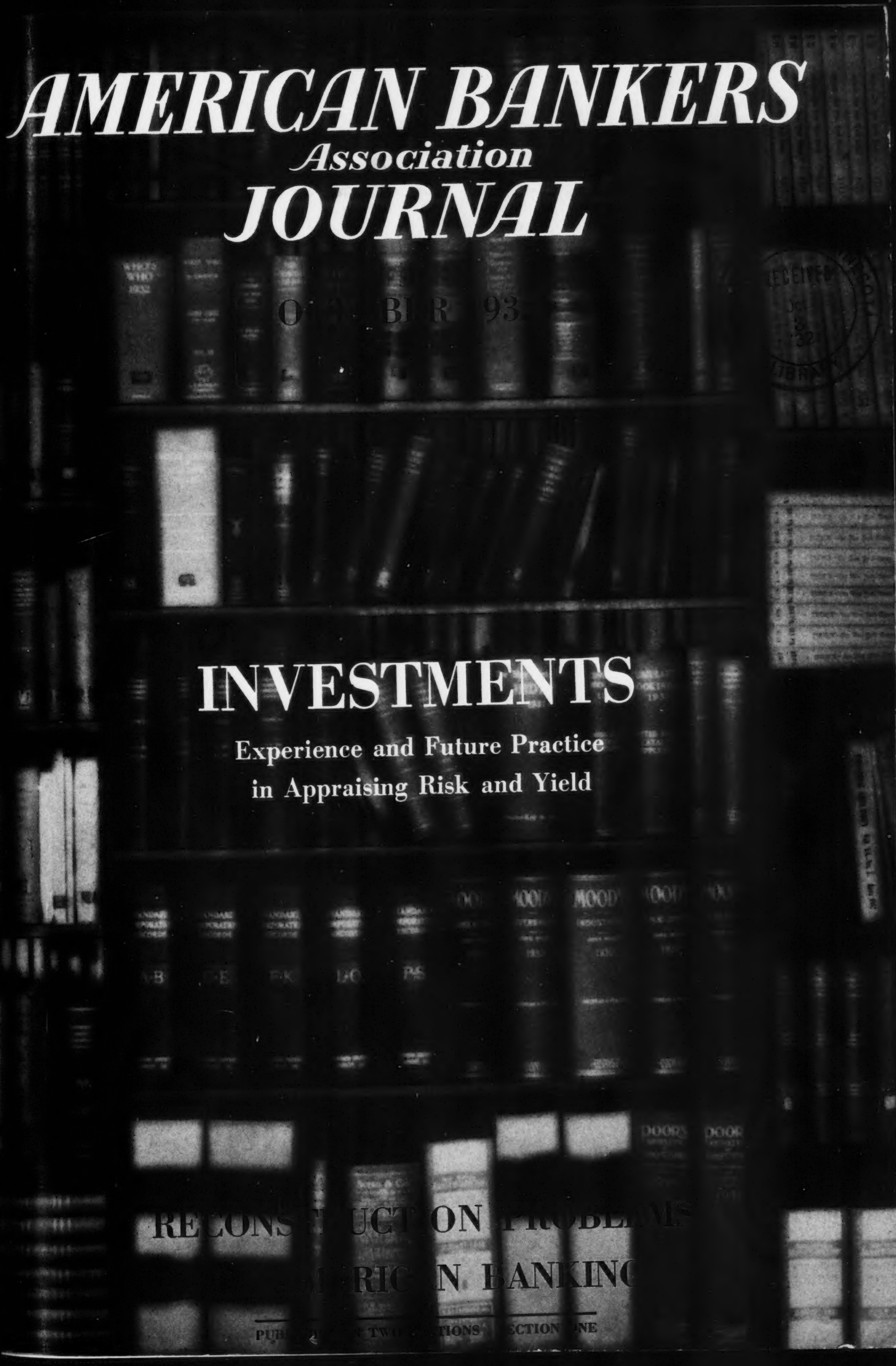

# INVESTMENTS

Experience and Future Practice in Appraising Risk and Yield

## RECONSTRUCTION PROBLEMS IN AMERICAN BANKING

PUBLISHED IN TWO SECTIONS SECTION ONE

# AMERICAN BANKERS Association JOURNAL

## FEATURES FOR OCTOBER, 1932



**DEPARTMENTS**




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# Behind the Bond News

THE forces normally operative during a depression and after the panic stage has passed have continued to be the determining factors in the course of bond prices. Investors have kept on re-acquiring the bonds which either they themselves or others had sacrificed while the financial structure was being severely shaken last May, and prices have made substantial additions to their market values, with new highs on the recovery regularly achieved and in numerous instances new highs for the year. Buying interest has been spread widely through the list and has not overlooked the higher grade foreign bonds. Not only has trading in old issues increased materially, but the largest volume of new bonds has been sold that has reached the market in several months.

GALLOWAY

### NEW OFFERINGS

A NOTEWORTHY feature of the bond market's record in the last few weeks is that Treasury and municipal issues have shared the field of new offerings with a number of corporate obligations. Several different issues of public utility operating concerns have readily found buyers, with three of the principal units in the former Insull system alone marketing $58,000,000 of long term bonds. Rarer still is the fact that two pieces of Canadian business have been handled. The Province of British Columbia sold $2,000,000 worth, and the Canadian Pacific offered through American bankers $2,500,000 of ten year 6 per cent convertible collateral trust bonds. These are the first foreign obligations that have been offered publicly to American investors since September, 1931, with the exception of a $2,000,000 issue last November. As an indication of what the opening of the market means, Canadian exchange has had a good rally since the issues were offered—improving, at least potentially, Canada's capacity to buy American goods, not only through the dollars obtained by sale of the bonds but also through direct purchases of dollars as Canadian currency is sold on more favorable terms.

It would be difficult to single out any particular development as being responsible for the rally in bond prices which began in June. But if any one happening had to be given paramount distinction for causing the turn-around in the bond market, it would doubtless be the victorious emergence of the dollar from the foreign attacks to which it was subjected continuously from the week beginning September 21, 1931, when the Bank of England was relieved of the responsibility of redeeming its notes in gold, until the middle of last June. When the dollar proved itself sturdy, a rallying point was set up for all the financial forces, national as well as international; and bonds, of course, could be counted upon first to register the relaxation of fear and the restoration of confidence.

This demonstration of the dollar's impregnability forms the back-drop for a series of other events which have exercised an influence on bond prices since early June and during the month under review. The Lausanne agreement has been a continuing salutary influence, and after that must be cited, first, the extension and deepening of the hope that business returns will be more favorable this fall. Such a hope may seem a slender reed to support so considerable an enhancement in the market value of bonds, but it is the invariable experience that when the trough of a depression is still at hand fixed interest bearing securities begin to work higher, anticipating and also aiding the upturn in business.

### OTHER INFLUENCES

BESIDES the increasingly general belief that business may improve in the closing months of the year, other influences tending to cause improvement in bond prices include the return of a little less than 20 per cent of the gold lost to Europe from September a year ago until last June; the return to deposit of some of the hoarded currency; increasing avail being made of the right to issue national bank notes against Treasury 3⅜'s, 3⅛'s and 3's; slackening in the demands on insurance companies for policy loans; the betterment of the Treasury's credit to a point where a five-year issue was sold readily at a rate rather favorable to the Government; and the mounting evidence that municipalities are looking more closely to their expenditures.

The rally in bond prices has gone forward in spite of the fact that the Federal Reserve banks have discontinued their weekly purchases of Government securities, after acquiring the record-breaking amount of $1,110,000,000 over the course of 24 weeks. This development did not have an adverse effect on the bond market. Rather, the ending of the System's buying campaign was regarded as an indication that Federal Reserve authorities believed natural forces were now strong enough to carry further the influences set in motion when the program began in the last week of February. (CONTINUED ON NEXT PAGE)

The upsweep in Treasury, municipal and corporate bond prices since early June has eased greatly the position of banks, insurance companies, investment trusts, borrowers and a host of others who own these securities. What the price advance has meant to the banks can be roughly appraised.

### INVESTMENT PORTFOLIOS

FROM the low of the year the market value of the long-term obligations of the United States Government has risen approximately $1,000,000,000, or nearly 8 per cent on the $13,250,000,000 of these issues outstanding. All member banks of the Federal Reserve had $5,628,000,000 of Government securities on June 30. Deducting the securities they had posted as collateral for national bank notes, member institutions had approximately $5,000,000,000 of Government bonds and short-term Treasuries on which the price improvement had an effect. An 8 per cent increase in the market value of these holdings would amount to $400,000,000; but as some short term securities are included in the total, the net price appreciation was somewhat less than 8 per cent. An increase of $250,000,000, or 5 per cent, in the market value of the Government securities portfolio of member banks is, however, a very conservative estimate. All banks in the United States had $18,400,000,000 of investments on December 31, 1931, of which about 50 per cent were Government securities. On the same scale the total market value increase in all bank holdings of these securities has been about $450,000,000.

But that is not the whole story of the relief to bank condition statements which the rally in bond prices has brought about. A representative list of corporate bonds—including rail, public utility and corporate issues—has experienced a price appreciation of, roughly, 30 per cent from the year's low. On June 30 all member banks had $5,786,000,000 of non-government securities in their investment holdings, consisting, for the most part, of just such issues as have had a 30 per cent increase in market value. A 30 per cent increase in the stated value of these holdings amounts to $1,736,000,000, or a combined gain in Government and non-government security investments of approximately $2,000,000,000. For all banks in the United States the appreciation in non-government holdings, on this 30 per cent basis, amounts to slightly more than $2,500,000,000, giving a total price increase for the two classes of investments of around $3,000,000,-

000—a considerable improvement.

The position of the banks has benefited in still another way than in the higher market value of their own holdings. At the end of June the Federal Reserve member banks had $5,916,000,000 of loans secured by stocks and bonds. Because of the slump in security values in the first half-year, and even before that, a good many of these collateral loans were, as the phrase goes, under water. But since early June the rally in bonds and stocks has restored the margins on a great many of these loans, thus "defrosting" the loans to the advantage of borrower and lender alike. The Federal Reserve has reported that member banks wrote off $264,170,000 on investment account in 1931. Indications are that they will make a measurably better showing this year.

### TREASURY FINANCING

THE huge stake which the banks have in Government issues gives them an important interest in the financing and refinancing problems confronting the Treasury. The improved market for Government obligations, as evidenced by the fact that at the September tax date the Treasury had great success in selling a five-year note—the longest maturity it has marketed in a year—strengthens the belief that over the course of the next year advantage can be taken of the privilege of refunding all or portions of the 1st Liberty 4¼s and the 4th Liberty 4¼s, the former outstanding in the amount of $532,491,650 and the latter in the amount of $6,268,110,450, for a combined total of $6,800,602,100. The 1st 4¼s are callable on and after June 15, 1932, and the 4th 4¼s on and after October 15, 1933.

It has seemed manifest to bankers who are experts on Government issues that the Treasury is faced with a problem of secondary distribution if the two refundings are to be handled successfully. The new securities into which the issues are converted will have to attract other investors than the banks and institutions. In other words, a good part of the public will have to be interested in the refunding issues, for the banks will be in no position to hold the bulk of the new bonds when business improvement really arrives.

There are reasons to believe that the Treasury authorities are fully alive to the necessities of the occasion, and it would create no surprise if the Treasury should sponsor a bill to exempt the refunding issues from surtaxes, a preferred position now accorded only to the $1,392,000,000 of 1st Liberty 3½s, callable on and after June 15, 1932.


THE past month has been notable for the speed with which what may be termed the "second phase" of the President's Reconstruction program has been pushed. The first phase ended with the mobilization of the Government's own financial machinery and the setting up of a gigantic reservoir of Federal credit, the Finance Corporation. The second, which is now in progress, consists in organizing the private industrial and financial resources of the nation and co-ordinating them with the Government's instrumentalities in what Mr. Hoover has referred to as "a powerful attack upon the depression along the whole national front."

**12 REGIONAL HEADS**

THE President's General Staff, in pushing this new "Battle of Soissons", was appointed on August 26. It includes the heads of the twelve regional banking and industrial committees, and in addition: Jackson E. Reynolds, president of the First National Bank of New York; A. W. Robertson, chairman of the board of the Westinghouse Electric Company; George L. Harrison, Governor of the Federal Reserve Bank of New York; Atlee Pomerene, chairman, and Charles A. Miller, president, of the Reconstruction Finance Corporation; Robert P. Lamont, former Secretary of Commerce; Eugene Meyer, Governor of the Federal Reserve Board; Ogden L. Mills, Secretary of the Treasury; and Roy D. Chapin, Secretary of Commerce. Under the direction of this General Staff, six sub-committees were named to carry out six specific tasks, as follows:

1. Making available credit affirmatively useful to business. Chairman, Owen D. Young.

2. Expanding the railroads' program of equipment purchases and maintenance expenditures with the purpose of increasing employment. Committee, Daniel Willard, president of the Baltimore & Ohio Railroad, and George H. Houston, president of the Baldwin Locomotive Works.

3. Expanding capital expenditures by industry in replacements and otherwise. Chairman, Mr. Robertson.

4. Increasing employment through a sharing-work movement. Chairman, Walter C. Teagle, president of the Standard Oil Company of New Jersey.

5. Stimulating repairs and improvements of homes. Committee, Sewell L. Avery, president of Montgomery Ward & Co., and C. M. Wooley, chairman of the American Radiator Corporation.

6. Organizing committees in the several Reserve districts to assist home owners with maturing mortgages. Chairman, Mr. Miller.

Mr. Teagle lost no time in getting his committee down to work on the pressing labor problem. The latter, on August 27, announced plans for a nation-wide drive, along the lines of the Liberty Loan campaigns, to distribute work. "Job-security by job-spreading" was the slogan adopted by the committee, which set up national headquarters in New York on September 1 with the avowed purpose of "putting 1,000,000 additional men to work". The Reconstruction Finance Corporation on August 29 published rules under which it will lend funds for construction projects. One of the most important of these is that men engaged on such projects may not work more than 30 hours a week.

**COMMODITIES**

ON August 23 the Commodities Finance Corporation was organized, with $50,000,000 capital, to finance the purchase, carrying, and marketing of com-

modities for raw material users. Mortimer N. Buckner, chairman of the New York Trust Company, was named president; and Charles S. McCain, chairman of the board of the Chase National Bank, was made head of the executive committee, which includes, in addition, Gordon S. Rentschler, president of the National City Bank; William C. Potter, president of the Guaranty Trust Company; George W. Davison, president of the Central Hanover Bank & Trust Company; Jackson E. Reynolds, president of the First National Bank; S. Sloan Colt, vice-president of the Bankers Trust Company; H. P. Howell, president of the Commercial National Bank & Trust Company; Mr. Buckner; and H. E. Ward, president of the Irving Trust Company, vice president.

On August 26 J. W. Pole, Comptroller of the Currency, ordered a moratorium on foreclosures of first mortgages by receivers for closed national banks during the period of organization of the Home Loan Bank system. The movement was subsequently taken up by state banking departments throughout the country. Authorizations from the R. F. C. were sought during the month for a number of large-scale public construction projects, the largest being a plan for eradicating the slum areas in New York City, which it is estimated would require $120,000,000. Darwin R. James, president of the East River Savings Bank of New York, is sponsor for this mammoth project. On September 5 the R. F. C. announced that it had lent $50,000,000 to the Federal Farm Board to enable the latter to withhold its stocks of cotton and wheat from the market until the present crop seasons are over.

### PRE-ELECTION

THE reticence of Alfred E. Smith, defeated candidate for the Democratic Presidential nomination, in connection with Governor Roosevelt's candidacy, has been a conspicuous feature of the election campaign in the last month. On August 16 John N. Garner, Vice-Presidential candidate, called on Mr. Smith in New York, but Mr. Smith was silent on the subject of the conversation. Later, on August 28, he declined an invitation to a luncheon at which Mr. Roosevelt was to be present, at Westhampton Beach, L. I., although only ten miles away, and kept a "previous engagement". Mr. Smith's support is regarded as immensely important to the candidacy of Mr. Roosevelt, especially in the campaign in the East.

Calvin Coolidge urged the re-election of President Hoover in an article in the

*Saturday Evening Post,* on September 5. Mr. Hoover, he said, should be elected "for what he has done and what he has prevented." Bernard M. Baruch, on the same day, declared in an interview that Governor Roosevelt was "sound". Characterization of him as a dangerous radical he called "ridiculous". Mr. Baruch, a friendly adviser to the Administration, is politically non-partisan.

### GERMANY

GERMANY continues as the focal point of international interest and uncertainty. Whatever friendship existed between Adolf Hitler, leader of the National-Socialists, and von Papen, Hindenburg's hand-picked chancellor, came to an end in the last few weeks and each let it be known that he would give no quarter in the fight for political supremacy.

On August 28 von Papen outlined a program of economic recovery, the basis of which is a subsidy to industry in the form of a tax revision and scrip payments in the way of bounties for each extra worker employed. On September 4 steps were taken to reorganize Prussia, which, under the Weimar Constitution of 1919, has its own cabinet, and between whose government and that of the Reich there has been much friction. The new plan amounts to dividing the state into a number of separate provinces. Pushing his advantage abroad, von Papen presented to France, on August 31, Germany's case for revision of the armaments conditions of the Treaty of Versailles. The proposal is understood to present the alternatives of German arms equality or German withdrawal from the Geneva conference. On the same day, new German tariff decrees were announced providing for drastic increases in import duties, including many from the United States. The increases average 100 per cent, and in many cases are prohibitive.

Meanwhile, Hans Luther, president of the Reichsbank, declared on August 24 that the Reich did not plan to ask a general scaling down of interest rates on its privately held foreign debt. On September 3, however, it was reported that Germany would seek a 2½ year postponement of payments due United States on mixed claims commission awards and for repayment of costs of the American Army of Occupation. These payments run to 1981 and amount to $15,000,000 annually.

### GREAT BRITAIN

THE British Empire Trade Conference, which convened at Ottawa, Canada, on July 21, came to an end on August 19, (CONTINUED ON PAGE 77)

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# Investments—

By ARTHUR B. TAYLOR

## A Short Guide to the Purchase of Good Bonds

KAIDEN-KEYSTONE

**Mr. Taylor is Chairman of the Bank Management Commission, American Bankers Association, and president, Lorain County Savings and Trust Company, Elyria, Ohio. His article is based upon the results of an extensive survey on bank investments, which is just being completed by the Bank Management Commission**

**I. BONDS for secondary reserves and bonds for investment are separate and distinct.**

IN secondary reserves there should be included call loans, bankers' acceptances, commercial paper, trade acceptances, short-term U. S. Government bonds, short-term high grade municipal bonds and short-term high grade corporate bonds, with emphasis on quality and maturity. Short-term bonds are not necessarily liquid. In other words, a bond maturing in one year may not be so liquid as one maturing in 18 months or two years. This matter of short maturity may easily be a snare and a delusion.

There are some who feel that long-term United States Government bonds by virtue of the market existing for them as well as the rediscountable feature, may be classed as a secondary reserve. Academically, this is true. But as a matter of practical policy, it is best to follow strictly the definition of a secondary reserve as one capable at all times of replenishing the primary reserve without loss. On this basis, long-term Government bonds would not be included in a secondary reserve. Bonds as such, then, with the exceptions specifically mentioned, do not qualify and should not be so considered.

To regard an investment bond account as secondary reserve is an error.

Bankers often say that bonds cannot be bought except when deposits are high, at which time prices are high and yields are low. Accordingly, they should not be bought. The answer is that if a bond account is to serve its function at all it must be a permanent thing—an integral part of the bank both in times of low deposits and in times of high deposits, in times of low loans and in times of high loans. As a matter of fact, that is what actually occurs in a properly run bank, but it is the natural distaste for seeing low quotations, and the absence of planned bond purchases as an integral part of the bank's placing of its funds, that really accounts for the aversion.

Under present day methods there is a looseness and absence of tie-in. In other words, it is up to the banks over a period of time (and this does not mean infinity), to move away from their slow loans and segregate this money together with whatever other funds they may so allocate in the light of their condition, into an investment account. This is basic, although theoretical, banking. It is theoretical to the extent that it has not been adopted as a universal practice in the past, but we can be sure that the making of certain loans which has been the part of practical banking in the past will not be the part of practical banking in the future; and it is to be sincerely hoped in addition that the purchasing of certain bonds both as to quantity and quality will not be repeated in the future.

It savors of triteness to say that high grade bonds are the only type of security which a bank should buy, and yet it has been the departure from this practice which has caused much trouble. There is nothing startling about the above statement and most bankers would agree. The practice is not followed for the reason that the purchase of high grade bonds involves the taking of a low return, which act comes into direct conflict with the payment of a high rate of return on deposits. This may be a truism, but it is one so forceful in its application that it cannot be emphasized too much.

## Bond Analysis Methods—Agency (1)

**OUR rating of bonds is based on the judgment of specially designated members of our staff, who confer daily as a committee. The three chief factors considered are earning power, mortgage position and marketability; they determine a bond's percentage rating and therefore its classification under an appropriate letter or symbol.**

**The highest type of earning power contributes 50 per cent to a bond's total rating, the best mortgage position 35 per cent, and the widest marketability 15 per cent—a total of 100 per cent. It should be noted that earning power carries as much weight as mortgage position and marketability combined.**

**The committee considers first, for example, the earning power and the numerous factors which come under that head—position of the examined corporation's outlook and business and that of allied enterprises, geographical factors, personnel and management and others. There is no formula for arriving at conclusions concerning these points. They are weighed, not mathematically, but purely by judgment and opinion. All things considered, a bond is given an earning power rating of, say, 41 per cent, a purely arbitrary figure based on the committee's convictions. Perhaps mortgage position is next considered and opinion dictates a rating of 28 per cent. Marketability is similarly set at 11 per cent. The total is taken and is found to be 80 per cent, which places the bond in B grade.**

**We define earning power as meaning principally the margin of safety by which fixed charges are covered. The requirements for this safety margin are not so strict for the rails and utilities as in the case of less stable industries.**

**A bond that is a first mortgage and is believed to have good equity values back of it is given a score of 35 per cent, the maximum allowed for this factor. An unsecured bond of a holding company may be its only obligation, but being in effect junior to all funded debt and preferred stocks of subsidiaries in the hands of the public, it is given a relatively low rating.**

**Factors such as size of the issue and listings of course largely determine the marketability.**

**We require complete financial data from a corporation for at least four consecutive years prior to considering it for non-conditional rating. Real investment values are those from 90 to 100 per cent, good to semi-speculative bonds are in the 80 to 89 per cent class, while thoroughly speculative issues are found graded from 70 to 79 per cent. United States Government bonds are all in the highest rating. No municipal or state bonds are rated. Foreign bonds receive a conditional rating.**

**II. FREQUENT consultation with a city correspondent is a factor of first importance, particularly to the small bank.**

IT cannot be stated too emphatically that the correspondent should be given a complete picture of the status of the particular bank which is seeking investment advice. This will involve intimate contact which should be created not only in the investment phases of banking but in all phases.

A necessary principle for the country banker is to keep the city correspondent informed at all times as to the policy he is trying to follow. Only in this way can the city correspondent be of any constructive assistance. It is of no avail for the small bank to write its correspondent, stating:

"We have some surplus funds to invest and are considering placing them in high grade bonds. What would you recommend? Thanking you for your courtesy, we are Very truly yours,"

A letter of this sort cannot possibly lead to any helpful suggestions. Are the funds temporary? Are they obtained as a result of a public deposit which will be withdrawn on a fixed date? Are they funds which it is expected will be with the bank possibly for several years? Or just what is their status? All of these questions and others enter into the problem.

In larger institutions, one officer should have the complete responsibility of purchasing securities and that officer must be a security man. In most banks this problem will doubtless be overcome naturally as time goes on by the fact that the majority of institutions in cities of 100,000 or more are actively in the trust business, which requires investment knowledge.

**III. ONCE a security is purchased, its status should be reviewed for current information at least once a week.**

SUCH care should not be planless and haphazard. A bank requires above all an adequate source of dependable investment data and counsel. In addition to the help rendered to smaller institutions by city correspondents, there are available the services of research agencies of high standing, organized for the purpose of collecting and distributing essential facts on securities.

These agencies employ various methods of rating bonds—various systems of testing the present soundness and future prospects of particular issues. Accompanying this article are brief summaries of several different approaches to the

## Bond Analysis Methods—Agency (2)

**WE rate bonds according to a statistical formula that has been proved over a long period of years to be the most satisfactory means of arriving at bond grade conclusions. Certain factors that enter into bond rating can be assigned a definite mathematical value.**

**Three such factors enter into our grading system: security of principal, security of income, and stability, or the ability of a corporation to maintain the position of its securities under all circumstances. These factors are embraced in our formula. Through the formula we arrive at a "statistical rating." At this point a number of non-statistical factors are taken into account. A rating is the result.**

**In the statistical rating of principal security we consider asset values and bonded indebtedness, in security of income the margin of safety over a period of years, and in stability we take into account a great many of the items in the income account and balance sheet.**

**Non-statistical elements may enter into the picture to a greater or less degree.**

**Our highest rated group is made up of bonds whose statistical position is of the best. In the lower bracket of this group are bonds that may be slightly affected by business trends.**

**Below these are the "business man's" investments, those of good statistical position but with some degree of risk. They are marked by enough of the risk element to bear watching.**

**Speculative securities are further down in another group. Their position as shown by formula is well down the scale. In this group are often income bonds and junior obligations.**

**Below this point we find various degrees of speculative complexion, down to bonds that are no better than gambles.**

## Bond Analysis Methods—Agency (3)

**THE "trend" of a corporation's position, its probable future movement, we consider more important than the present status of its margin of safety. We rate bonds according to this probable trend, which may be defined as a corporation's tendency to show improvement or deterioration in operations.**

**Analysis of the trend requires, of course, data covering a number of years. As a general practice we use the margin of safety averaged through a period of years over the present interest requirements. This is one factor in the determination of trend.**

**While railroad company trends are fairly easy to determine from reports to the Interstate Commerce Commission, special attention is given to maintenance of way and structures, and to equipment—whether these items are kept at a high enough level so that large lump sums will not have to be paid out after several years. The related growth of earnings and capitalization is another matter to be watched closely. Neither should outstrip the other too far.**

**In considering the trend of industrials and utilities, the margin of safety is a factor but is not always so important as other items—practically all those in the usual annual report demanding consideration. It is obvious that the trend may be affected by geographical location, management and personnel, the "seasoned" condition of the company in question, and a number of more or less intangible items. This is true of railroads as well as of utilities and industrials.**

**The quality of a bond's probable trend having been determined, we assign it to one of our four classifications—high grade investments, business man's investments, speculative securities, low grade securities. These grades may be described broadly as, (1) bonds with a notable lack of the speculative element, (2) bonds requiring constant attention because of some degree of risk, (3) bonds in which the speculative element predominates, and (4) bonds in default or marred by some equally unfavorable condition.**

**United States Government bonds are placed in a special grade at the top of the list. Foreign bonds are rated with the understanding that distance and the impossibility of keeping in constant touch with developments are factors of high importance.**

**Marketability is not a factor in rating, but calls for a separate mark besides the rating symbol.**

problem of analysis. These are cited without indicating the identity of the particular agency and will serve as illustrations rather than as recommendations.

The experience of watching quotations melt has not been confined to those in the stock market. Bonds, too, have a market, but if we never take advantage of this marketability, wherein lies the benefit? It is quite possible that conditions affecting any particular security may have changed since that security was purchased just as conditions affecting some loan may have changed since a loan was made. It is difficult to sell the loan but it should not be difficult to sell the bond.

Bonds, so far as banks are concerned, represent loans and as such should be examined regularly as would any other credit extended by the institution. Issues which are considered prime investments in certain phases of the business cycle are not prime investments in other phases.

The yield obtainable on any bond is determined by two factors: First, money rates, and secondly, credit risks. The yield to be obtained at any given time on any specific bond will vary with the relative weight of these two factors. Whether a bank should buy only money bonds—that is to say, bonds of unquestioned credit, which will be affected solely by the interest rate obtainable in the open market—is the question to be solved by each institution. But at all times it appears advisable that the major portion of a bank's security account be composed of money bonds—a minimum of 70 per cent to 80 per cent.

The extent to which a bank wishes to buy credit risks will depend upon the individual bank's qualifications for so committing its funds and upon the individual bank's opinion regarding the position of the business cycle. Where an institution is not set up carefully to scrutinize credit conditions, the account should be composed entirely of money bonds. The less qualified an institution is to buy bonds the more should it confine its funds to pure money bonds. Of course, the closest thing to pure money bonds are United States Government issues, but there are in addition certain corporate issues possessing such high credit standing that the security offered by their obligations is impeccable.

The objection may be raised that the return to the bank is too low to warrant the purchase of such high grade securities. In this connection, one must realize that the proper diversification in the placing of funds will inevitably require some bonds. If the funds are not placed in high grade bonds it is more than probable that they will find their way into the marginal commercial loan portfolio—a thing most devoutly not to be wished. (CONTINUED ON PAGE 62)

## Bond Analysis Methods—Agency (4)

**WE do not rate bonds. Our purpose is to look ahead six months or a year to discover a bond's probable position at that future time. This process entails examination of the future trend of long-term Government bonds, the future of a particular corporation's credit position, and finally the probable direction of the interest rate curve.**

**In the case of each individual high-grade bond there is a variable spread between its yield and that of averaged long-term Government bonds. This spread may be fairly constant, but it will vary in relation to changes in the individual company's credit position and certain other closely connected factors. In other words, a line chart of Government bond yields will be paralleled by the yield of any high grade bond to the degree that the bond-indebted company's credit position remains stable. Variation depends on changes in the corporation's position and that of the individual bond.**

**To go further into the process, we study the present condition of the interest rate and the developments that are likely to change it during the future period under question.**

**Interest trends are of course dependent on a multiplicity of factors which may include almost any Governmental or economic development, movements of gold, action by the Federal Reserve, Far Eastern occurrences and the like. They determine the interest trend, and that in turn points to the probable future of long-term Government bonds.**

**These relations exist, at least with mathematical certainty, only in a normal market and in the case of higher type obligations. And where normal conditions are operating, there are sufficient indications of what interest will do—many of them in fact—and credit positions can be pretty thoroughly analyzed. The process is mathematical in the main, with exceptions principally in the making of credit forecasts.**

## A Re-Selling Job

**"Fear is no longer rampant in the South and there is definite evidence that confidence in the financial structure is returning, or ready and willing to return," says Mr. Murrah, who is manager of the business development and advertising department of the First National Bank of Atlanta. "This fall is certainly the accepted time to capitalize on the psychological reaction now setting in, and it is my firm belief that every dollar spent now for intelligent advertising will be worth two dollars later on"**

# ADVERTISING

**By WADE G. MURRAH**

**Mr. Murrah's article and Mr. Herrick's step-by-step elaboration of his recommended eight-point program are their answers this month from the South and the Pacific West respectively, to the questions, "How shall we advertise? What copy appeal will best meet our problems during the next six months?"**

AN advertising program tends to reach its maximum efficiency to the degree in which it meets current needs, produces results, and contributes toward ultimate profits. In considering, therefore, the first advertising objectives for southern banks this fall let us see what is the present condition of banking. Let us admit that banks have lost ground since the depression got under way, and that our individual banks—most of them—have lost a certain amount of prestige.

Whether or not the current criticism of banks is justified is not the question to be promulgated here, but in any survey of our current banking situation certain facts stand out. First, American banks are holding today, subject to depositors' demands, deposits aggregating $40,000,000,000 as compared with $19,000,000,000 in 1914. Second, notwithstanding the great amount of publicity given bank failures during the past year or so, it is often overlooked that all the banks closed during 1931 affected only approximately 2 per cent of the deposits of the country, and that a major portion of this will be recovered for depositors through liquidation. Third, in the face of criticism and misunderstanding, American banks have successfully maintained the credit structure of this country by dispensing their credit wisely, and by conserving it soundly.

Robert E. Lee once wrote to his son that "duty is the sublimest word in the English language". It is my belief that the American banker has faithfully performed his duty and served well indeed the interests of his country throughout these difficult times. When the facts are more fully understood and appreciated, it is my prediction that the banks can look forward to a new day and to new heights of stability and profits, measured only by their foresight, ability and efforts.

The first advertising objectives this fall should be to recover this lost confidence on the part of the general public, and to restore to banking all its former prestige and more. The American people are fair-minded, and well directed advertising and publicity activities are no longer uncertain quantities, but represent driving forces of definitely known power and usefulness. Banks can, if they will, make use of these forces to reconstruct public regard for banks and their functions, and their usefulness. The job may be difficult, but the American attitude has always been that difficulties are not something to which we submit, but which we surmount.

To accomplish this great objective, the South occupies a strategic position unequaled, perhaps, by any grand division of the United States. This is partially due to the fact that this section has been in the throes of adversity since 1926, and many of the battles which still face the rest of the country have been fought and won in the South. Fear is no longer rampant here, and there is definite evidence that confidence in the financial structure is returning, or certainly ready and willing to return. The time to advertise to people is before they buy—not after they have bought. This fall is, therefore, certainly the accepted time to capitalize on the psychological reaction now setting in, and it is my firm belief that every dollar spent for intelligent advertising now will be worth two dollars later on.

What form and character these advertising and publicity activities should take will be (CONTINUED ON PAGE 93)


Prestige Building in the South—

## An 8-Point Program

**For Western banks there are eight main advertising objectives this fall, believes Mr. Herrick, who is advertising manager of the Security-First National Bank of Los Angeles. These include: customer education, continued savings advertising, closer study of the bank market, advertisements dealing with loans, a smaller list of miscellaneous publications, fewer free gifts to patrons, more tests and fewer "flops," and cultivation of the good-will of attorneys. He gives definite suggestions on each in the following article**

WITZEL

# OBJECTIVES

By ALLAN HERRICK

**Last month Ray A. Ilg, National Shawmut Bank, Boston, and W. E. Brockman, Northwest Bancorporation, Minneapolis, answered from the East and the Middle West. These four articles, representative of the major sections of the country, provide a comprehensive discussion of today's advertising problem**

•

AN uninformed banking public has taken the bit in its teeth, closed the doors of hundreds of banks, withdrawn millions from circulation and brought disaster in many instances down upon its head. A wiser clientele would have avoided this.

1. Customer Education. We must begin all over again the task of pointing out the function and purposes of banks, and the place they occupy in the nation's economic system. We must make this message as simple, plain and direct as we can. We must support cooperative movements for banking education offered by the schools, the American Institute of Banking, or clearinghouse organizations.

Our job is to interpret the bank to the public, to point out its advantages, to explain the usefulness of its services and departments, to make the bank better known and more fully understood. To this job we must devote our best efforts.

2. Closer Study of the Bank Market. We must know more about the people we hope to reach. Vague and indefinite appeals are weak. We must be specific. We must aim our message at those who are about to open accounts, make wills, create trusts. Five hundred people will open bank accounts in my city today. At what bank? Why? Will reading my advertisement convert them to my institution?

3. Continued Savings Advertising. Go over the savings ledger cards one by one. Are people saving now? How much? How many are using the savings department to avoid a service charge? How many are really investors rather than savers?

The "investment" appeal is best for savings today, the "get ahead" appeal second, convenience third. This may not be true next month or next year. We must keep in touch with changing conditions.

4. Advertisements Dealing with Loans. Many western banks never use the word "loan" in an advertisement. Other banks have dealt with loans in their advertising over a period of 20 years with very beneficial results. Making loans is the bank's business. The manner in which this service is rendered and the benefits to the individual and to the community should be a part of the bank's program of education. Some day in your community a youthful Walter Chrysler, Andrew Carnegie or Robert Dollar will ask for his first loan. He ought to know in advance that the bank's loaning facilities are for its customers and that a bank balance well maintained is a great aid to him in obtaining credit.

5. A Smaller List of Miscellaneous Publications. Western bank advertising budgets still contain deadwood in the form of space in programs, special editions and miscellaneous publications of every sort. This space must be eliminated. Space purchased today must deliver the utmost in wide-awake circulation in fields in which there is good purchasing power. Space in foreign language newspapers should be reviewed. Use the blue pencil on publications in which space is bought for some reason other than its merits.

6. Fewer Free Gifts to Patrons. A service charge of fifty cents a month will not cover the cost of carrying an account if in addition to the clerical work we provide the customer with free pay envelopes every month, a $10 donation for the lodge picnic and a contract for a year's space (CONTINUED ON PAGE 95)

Greater
*Buying* Power
Greater
*Saving* Power

SEVENTY-THREE CENTS, the statisticians say, buys today as much as a dollar did in 1929.

What are you doing with the other 27 cents?

It is true that liberal spending by those who have money to spend, helps make business better. It is also true that the accumulation of money in banks helps make business better.

Every effort is being made in this country, and in all the civilized nations of the world to "stimulate credit." The fact remains that the foundation of any extension of credit must be actual accumulations of money saved.

It isn't necessary to restrict all your buying, to question all your desires. All that is necessary is to consider an accumulation, a reserve, steadily growing, as one of the things you desire and will buy and pay for.

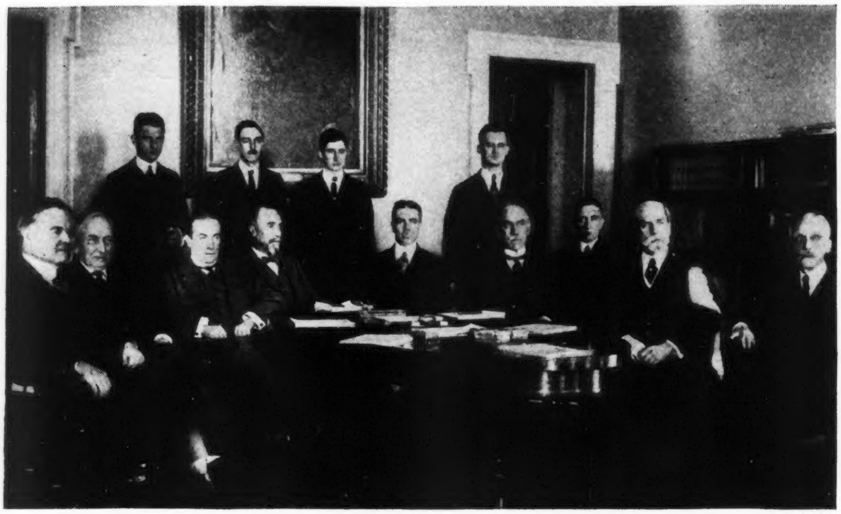
We offer safety, convenience, and 3½ per cent interest per annum for savings accumulations.

SECURITY-FIRST NATIONAL BANK OF LOS ANGELES
SAVINGS COMMERCIAL TRUST

RESOURCES OVER $500,000,000
CAPITAL AND SURPLUS $45,000,000

MEMBER FEDERAL RESERVE SYSTEM

**Savings Accumulation in the West**



KEYSTONE

A photograph from the debt funding days of the 20's, showing members of the American and British Commissions in Washington. The personalities with their official titles at that time, left to right, were: Secretary of Commerce Herbert Hoover; Rep. Theodore E. Burton of Ohio; Rt. Hon. Stanley Baldwin, head of the British Commission and Chancellor of the Exchequer; Montagu C. Norman, Governor of the Bank of England; Eliot Wadsworth, Asst. Secretary of the Treasury; Senator Reed Smoot of Utah; Secretary of State Charles E. Hughes; Secretary of the Treasury Andrew Mellon. Under-Secretary of the Treasury S. Parker Gilbert seated in the rear between Senator Smoot and Secretary Hughes

# Will Congress Need a New Word for "Cancellation"?

## Political Factors Which May Delay Final Action on the War Debts

CONGRESS is like the little boy who rises from the ground where he has been pushed in a struggle with a stronger boy and consoles himself with the boast, "Well I didn't say it!"—whatever the word is with which little boys admit that they are licked. Congress will never say "Cancellation". But the force of events is proving too strong for Congress. In the end, though probably not at the next session, it is going to say something that sounds very much like "Cancellation".

In the coming session it is not likely that Congress will have to deal with any more radical question regarding the war debts than the extension of the Hoover moratorium. The Hoover moratorium ran from June, 1931 to June, 1932. On December 15, a half yearly payment on the Allied debts to this country will fall due. The debtor nations have granted Germany an extended moratorium on reparation payments. This practically was an extension of the moratorium on debts by the United States, so Congress may be expected, with a good deal of grumbling, to extend the moratorium.

One might hope in the interest of economic security for a more definite


**By CLINTON GILBERT**

**Widely known as a commentator on government and politics, Mr. Gilbert is author of "The Daily Mirror of Washington" which appears in newspapers throughout the country. He was associate editor of the New York *Tribune* during the War years and has been writing from Washington since 1918**


disposal of the debts and reparations question than another postponement of payments. But anything more than a temporary expedient is improbable for two reasons. In the first place there may be a change of administration as a result of the November election, and an administration voted out of office will not take responsibility for acting on so vital a question as the international debts. And in the next place the session beginning in December will expire by limitation on March 4 and, having before it repeal of the Eighteenth Amendment, the legalizing of beer and perhaps further relief legislation, it will not have time to take up reduction or cancellation of the debts.

Nor so far as can be seen now is there likely to be any need for more than the temporary expedient of a further moratorium during the short session of Congress next winter. The Young Plan nations receiving reparations from Germany wisely made a settlement at Lausanne that leaves the United States plenty of time to make up its mind what to do about the debts. They in effect granted Germany an unlimited moratorium on the payment of reparations with, in the end, a cancellation of all but a trifling part of their claims against Germany, conditional on their reaching an agreement with this country for a drastic reduction of their war debts to the United States. They conditionally cancelled practically the whole of the German reparations in the belief that it was in their own interest to do so, and left the United States an indefinite time to decide whether it was not in its own interest to contribute to wiping out almost the whole vast sum of intergovernmental debts as one great contributing cause of the world-wide economic catastrophe.

Now public opinion has a way of developing with great rapidity. No one could have predicted six months ago that both of the great national parties in their election would be offering to

put an end to Federal prohibition. And no one could have foreseen that France, when she was resisting in June, 1931, Mr. Hoover's plan to delay the payment of reparations, would a year later be offering to cancel, virtually, all reparations if the United States would be similarly generous about debts. And the French peasant is a harder man to deal with on money matters than the American farmer, and Germany, France's debtor, is France's hereditary enemy, while our debtors were our allies.

The educative effect of the depression is not to be overlooked. This country may change its mind about the wisdom of insisting on collecting the war debts much sooner than now seems possible. But not so soon that there will be final action on debts in the next session of Congress. The obstacles to action on more than extending the moratorium in that session are too great.

If the economic outlook becomes more hopeful and the American people get it into their heads that recovery would be expedited by definitely ending uncertainty about the billions of intergovernmental debts, there may develop an impatience with the delay that political conditions cause. In that case the President may call a special session after March 4 to deal with the debts, together perhaps with other international economic problems. Governor Roosevelt, if elected President, may call a special session anyway. A President belonging to a party which has been out of (CONTINUED ON PAGE 65)

# The Story of Reparations and War Debts

## 13 Years 2 Weeks

JUNE 28, 1919—Treaty of Versailles signed.

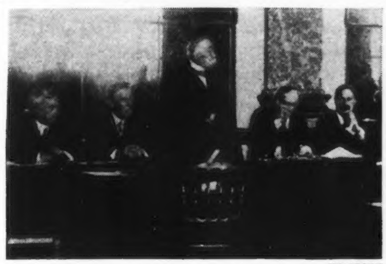
May 5, 1921—Reparations Commission assesses Germany with claims aggregating $31,416,000,000, to be distributed among the Allies as follows: France, 52 per cent; British Empire, 22 per cent; Italy, 10 per cent; Belgium, 8 per cent; Jugoslavia, 5 per cent; Portugal, 0.75 per cent; Japan, 0.75 per cent; United States, 0.00 per cent.

August 1, 1922—The Balfour principle: "The policy favored by His Majesty's Government is . . . that of surrendering their share of German reparation, and writing off, through one great transaction, the whole body of interallied indebtedness."

December 29, 1922—Secretary Hughes in speech at New Haven proposes that "men of the highest financial authority" be invited to report on "the amount to be paid and upon a financial plan for working out the payments."

May 1, 1923 to May 8, 1930—Individual agreements for the funding of debts to the U. S. by the following countries in the order named: Finland, Great Britain, Hungary, Lithuania, Poland, Belgium, Latvia, Czechoslovakia, Esthonia, Italy, Roumania, France, "Kingdom of the Serbs, Croats and Slovenes," Greece, and Austria.

October 13, 1923—Great Britain solicits "cooperation of the United States Government" in "the solution of the European problem, if for no other reason, because in it is involved the question of the interallied debt."



KEYSTONE

**Gray-haired Clemenceau quietly asked the German representatives to come forward and sign the Peace Treaty**

October 15, 1923—Secretary Hughes states U. S. Government "entirely willing to take part in an economic conference in which all the European Allies chiefly concerned in German reparations participate."

December 12, 1923—U. S. Government views "with favor the acceptance by American experts of invitations to participate."

April 9, 1924—Dawes' Committee Report provides for payment of $1,918,000,000 by Germany during five-year period 1924-29. U. S. receives 1.94 per cent of this sum for cost of Army of Occupation and miscellaneous claims.

June 7, 1929—Preliminary report of Young Plan provides total payments of $27,641,942,820 by Germany to the Allies over the period 1929-88.

June 20, 1931—President Hoover declares moratorium for one year on all intergovernmental debts owing to the U. S.

December 24, 1931—Young Plan experts report Germany unable to meet reparations obligations.

**Herriot**

**MacDonald and von Papen**

## From Versailles to Lausanne

January 9, 1932—Chancellor Bruening declares Germany will refuse to pay reparations.

January 12, 1932—French treasury experts propose to British government the annulment of German conditional reparations provided the United States cancels debts.

January 20, 1932—Laval states that France will not reduce reparations without a reduction in debts.

Contents of a memorandum handed by Secretary Stimson to the French Ambassador in Washington is revealed in Paris. "There is no connection between debts and reparation."

June 16, 1932—Lausanne Conference convenes.

July 9, 1932—Announcement of Lausanne agreement whereby Germany delivers to the Bank for International Settlements 5 per cent redeemable bonds to the amount of 3,000,000,000 marks ($714,000,000), not to be negotiated for at least three years and to be issued when, as and if negotiated, at not less than 90 per cent of their face value.

State Department reiterates stand against cancellation, but in favor of considering capacity to pay.

July 13, 1932—Publication of "gentlemen's agreement" between England and France looking toward cooperation in all matters pertaining to Europe and implying reconsideration of debts by the U. S. as the basis for carrying out the provisions of the Lausanne pact.

July 24, 1932—Senator Borah proposes a world conference to revise or cancel the war debts.

## What Are the Chances of Changing It, and Is a Change Desirable?

# Should the Rule Against Perpetuities Be Extended?

By LOUIS BARCROFT RUNK

**"From time to time this proposition is urged, especially after a season of severe decline in values, when men and women naturally want to have what is left of their once much larger fortunes preserved intact as long as possible for the benefit of their posterity", says Mr. Runk, who is assistant trust officer of the Provident Trust Company of Philadelphia. In the accompanying article he discusses what the rule is, then the chance of changing it, and whether a change is really desirable**

AGITATION for a change in the rule against perpetuities has become increasingly strong in recent months. The rule, which lifted the "dead hand" from estates, has been under attack from time to time for years.

Repeatedly, it has been urged that the protection afforded against perpetuities has also closed the door to full protection for beneficiaries. Especially after a season of severe decline in values, when men and women naturally want to have what is left of their once much larger fortunes preserved intact as long as possible for the benefit of their posterity, is there a well pronounced demand for an extension of the time limit set by the rule against perpetuities. This is a very practical factor to be reckoned with in any consideration of a possible change in the rule. Yet, equally practical factors must also be considered in an attempt to reach a decision on the question.

First, let us consider briefly the rule. It was suggested in England originally about 300 years ago, but put into working shape about 50 years later in a case known as "The Duke of Norfolk's Case." At that time the bulk of English property was land, which men desired to tie up in their families as long as possible, so most of these early cases involve the descent of land. It is hard to state the rule in language that is at once clear and not technical, and in a short article like this we cannot go into its ramifications. Nearly all the cases involve a life interest for some named person or persons, followed by the name of someone who finally gets the land absolutely, if it is land, or becomes the absolute owner of the personal property that has been held in trust, this latter person being known as the remainderman.

The rule provides that all future interests must vest within 21 years after the termination of lives that are in being when the deed is delivered, if the interest arises under a deed, or when the party who has made a will dies, if it arises under a will. Now what does the word "vest" in this statement mean? An estate or interest in property is said to "vest" or "be vested" when we know the person who, if living, is by law entitled to enjoy or receive it, the moment the last preceding life holder passes away. The parties who are thus to finally take, need not enter into actual possession or enjoyment of the property within the time limit set, but they must be alive at a definite time and we must be able to identify them without any risk of mistake. As it has been quaintly expressed, "the candles must all be burning at once." Thus a deed or will could vest the principal of an estate or the land 21 years after the death of the last survivor of my children A, B and C (naming them), and of all the children and grandchildren of A, B and C "living at the date of this deed" or "living at my death," if it were a will. But if the deed merely stipulates 21 years after the death of all the children and grandchildren of A, B and C without using the words "living at the date of this deed," and if the will similarly said nothing about the children and grandchildren of A, B and C "living at my death," the provision would be bad, because some children and grandchildren of A, B and C might be born after the date of the deed or after the death of the testator, and unless these limiting words were put in, the group that would finally take could not be accurately determined at the date mentioned.

Now, what are the chances of passing statutes that would change the rule? In 23 states of the Union and in the District of Columbia this judicial rule has been expressly recognized by the courts or is embodied in a statute. Eight other states would probably adhere to this common law rule if a case arose. The other states, except Wisconsin, stipulate periods somewhat shorter than this rule, and Wisconsin is only 9 years longer. New York's well known rule covers only two lives in being. It would perhaps be desirable to have New York in line with the great majority of the other states, and their 1931 legislature passed a law for this change, but it was vetoed by the governor. In other words, the rule has been in only one instance slightly lengthened, and in many states appreciably shortened, so the chances of any statutory help, which is the only way help can come, seem very small.

Is such a change really desirable? Of course people like to hold intact their property, but there is a public interest involved which by general consent has widely adopted this rule against perpetuities as a reasonable time limit. While we are in a tremendous depression period, it has affected the total value of wealth less than its concentration, and when times improve that total value will again largely increase in amount. Any obvious effort by the holders of wealth to change this well established rule in what will be thought to be their own favor, will be apt to provoke some counter-attack that will shorten the present rule.

Our pres- (CONTINUED ON PAGE 78)

# Is This INFLATION?

## and do we know when to stop?

By HIRAM L. JOME

PROF. H. L. JOME

THE god of wine promised King Midas that whatever he should ask would be granted. Midas wished that everything he touched should be turned into gold. But the king had made too sweeping a request. The very food that he touched was changed into gold, and in danger of perishing by his own folly, he soon begged the god to take back his fatal gift.

King Midas really wanted only a few of the things he touched to turn to gold. He wanted money, but not too much of it, and when he sought to deflate, the god of wine compelled him to make the necessary retribution by bathing in the shallow waters of the river Pactolus.

King Midas, the inflationist, undoubtedly wanted a managed currency, but he was unable to control his own creation.

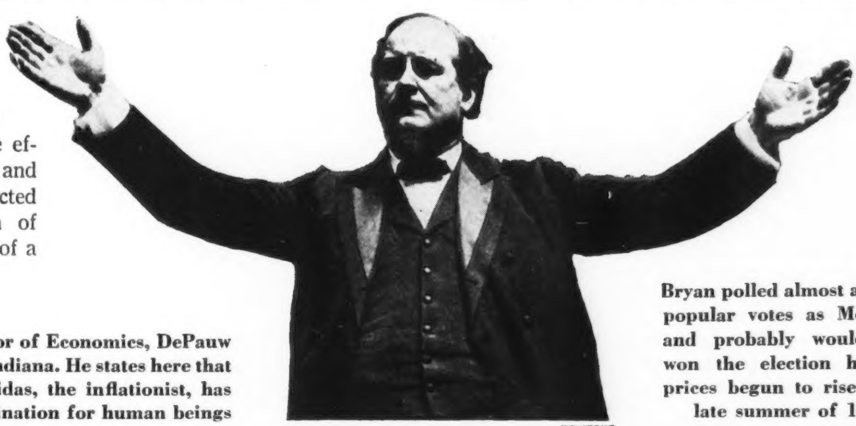
A biographer of Bryan once stated that the message of Bryan was intended both for the men of his age and for the men of the ages. The desire for more money or purchasing power has been a shining thread running through all history and has had profound effects on human thought and action. This desire lies dormant during times of rising prices, only to become very active when prices are on the downward trend.

The inflationists are again in the saddle. The efforts of many political and business leaders are directed toward the stabilization of prices or the resumption of a rising trend. The typical arguments for the increase of purchasing power, so as to bring prices back to some previous level, need not be repeated here. Nor will an analysis be made of the effectiveness of such artificial monetary and credit expansion. The purpose of this article is rather to describe the important forces making for inflation and to show how the very influence of these forces will, once the inflationist machinery has taken hold, tend to discourage any efforts at its control.

The present depression is the sequel to a great speculative, agricultural, and industrial boom. Investors may be classified into five main groups:

1. Those who were caught with common stocks during the high price period and are still holding them or were closed out by their banks and are waiting for a chance to recover their losses.
2. Those who did not hold stock during the boom and are standing on the side lines or are buying shares at current levels waiting patiently for the "next bull market", so they may scramble aboard.
3. Holders of low grade bonds and preferred shares, which have greatly fallen in price during the past year or two and many of which are in default or have passed their dividends. This class would also include depositors in banks and building and loan associations which have been forced to suspend payments.
4. Holders of United States securities and of the highest grade bonds and preferred stocks of corporations which have continued to earn interest and dividends.
5. Holders of insurance policies and annuity contracts and depositors in strong banks.

Americans have become stock minded. In the first two groups are probably 20,000,000 common stockholders. Such share holders are the mourners at the funeral and guests at the banquet table. They are longing for the banquet. Having learned that even bonds and preferred stocks and bank deposits are vulnerable in times of stress, numerous members of class three may ultimately substitute common stock for their holdings. First (CONTINUED ON PAGE 84)



KEYSTONE

Bryan polled almost as many popular votes as McKinley and probably would have won the election had not prices begun to rise in the late summer of 1896

**Hiram L. Jome is Professor of Economics, DePauw University, Greencastle, Indiana. He states here that the fatal gift of King Midas, the inflationist, has always had a strange fascination for human beings**

**Washington Farm Credit Machinery Includes Everything From 30-Day Accommodations to Mortgage Capital Loans with Amortization as High as 40 Years**

# Federal Competition With Country Banks

**By A. G. EVERETT**

THE establishment of 12 regional agricultural credit corporations by the Reconstruction Finance Corporation under the amended Reconstruction Finance Act presents the latest phase of aid for American agriculture. Apparently it is the last phase for the simple reason that there are no others left.

In the past 20 years the United States has built up a system of agricultural credit more elaborate and far reaching than that of any other country in the world. Its development has involved the appropriation of hundreds of millions of dollars of Government money and has used the mechanism of almost every department of the Government. In theory these latest credit organizations are temporary in their nature since they are a part of the Reconstruction system whose life is limited to ten years. In practice there is no probability that, once established, their life will end with that of the parent organization. Children of that breed usually outlive their parents.

Emergency measures to meet extraordinary conditions in agriculture have so dominated the situation in the past few years that it is difficult to estimate properly the effect of more enduring legislation. This permanent legislation was inaugurated 15 years ago with the establishment of the dual system of land or mortgage loan banks. Six years later, in 1923, Congress established the Intermediate Credit Banks and,—something which seems to have been forgotten,—the National Agricultural Credit Corporations. The former were designed to furnish farmers credit intermediate between short term accommodation and long term capital loans,—i. e., loans on crop collateral at terms from six months to three years. The latter were designed to make short term loans along similar lines. Both were to operate by securing funds through the sale of debentures.

The Intermediate Credit Banks can lend money directly to agricultural cooperative associations of established merit or can rediscount agricultural paper for banks, live stock and agricultural credit companies and similar concerns. The National Agricultural Credit Corporations can rediscount agricultural paper running up to nine months for banks, credit concerns and cooperative societies.

These three classes of institutions, accordingly, form a complete system of agricultural credit. They have been in operation from nine to fifteen years during both booms and depressions and their usefulness therefore can fairly be estimated. Up to June 30, 1932, the Federal Land Banks had closed loans aggregating $1,709,155,915 of which $1,139,071,015 were outstanding. The Joint Stock Land Banks had closed loans to the total of $899,899,156 of which $499,246,045 were outstanding.

These two types of mortgage loan concerns now hold farm mortgage indebtedness in the aggregate of $1,638,317,060. This is estimated to be about 17 per cent of the total farm mortgages outstanding in the United States at the present time. Undoubtedly these banks would have increased their share of the farm mortgage business of the country if the bond market in the past three years had been such that they could have disposed of their obligations at a favorable rate. At the same time there is a limit to their business and that limit has probably been approached. Interest and amortization charges on Land Bank loans approach and even equal those charged by other lending concerns.

Conditions governing Land Bank loans restrict their business to certain classes. At the time of the last report of the Comptroller of the Currency all banks in the United States held farm mortgages in the amount of, roughly, $450,000,000. Something like $8,000,000,000 of farm mortgages, therefore, are held by insurance companies, mortgage loan companies, other financial institutions or private investors.

During their operation the Intermediate Credit Banks have loaned a total of a little more than $1,400,000,000 of which $268,000,000 was put out last year. On June 30 last their loans and discounts outstanding amounted to $114,235,876.

The National Agricultural Credit Corporations have been so inactive that it is not generally known that they exist. Several corporations were organized under the Act of 1923 but soon winked out. The only corporation now in operation is the Pacific National Agricultural Credit Corporation of Fresno, California. At the close of business on the 29th of September, 1931, it had resources and liabilities of $3,452,306, its loans amounting to $3,134,462.

Summed up, the situation is something like the following: Total farmer indebtedness in the United States is estimated by the Department of Agriculture experts at between $13,000,000,000 and $14,000,000,000 of which nearly $10,000,000,000 is mortgage debts. Between 80 per cent and 85 per cent of this indebtedness is carried by other than Governmental agencies. Approximately 83 per cent of the mortgages are carried by private capital. The bulk of intermediate credits is carried by banks and private live stock and agricultural credit companies while the vast mass of short term credits are still carried by the country banks.

The effect of Government agricultural aid upon these private institutions, upon which the farmer in final analysis must depend, merits careful consideration. The most effective portion of the Government's system is the Federal Land Banks. Undoubtedly the land banks have effected a general lowering of interest rates and a liberalizing of terms of capital loans for agriculture all over the country and especially have established more uniform rates. At the same time they have weakened banks and other mortgage loan concerns by reducing interest rates on capital loans in some districts until they are out of line with interest rates on other loans. This may be good for the farmer but it is bad for the banks and in the long run may be bad for the farmer also since it weakens his primary credit facilities. The land bank system also has deprived thousands of country banks of considerable income from real estate sales, mortgage loan brokerage, insurance business and other means of revenue.

BROWN BROS.

There seems little doubt, also, that the operation of the Intermediate Credit Banks has been unfavorable to commercial banks. In theory the two types of institutions are supposed to work together, the Intermediate Banks affording rediscount facilities for the commercial banks. In practice things have not worked out that way. As above indicated, the Intermediate Banks last year did a business of over $268,000,000,—their greatest year to date. Over two-thirds of this business was in the form of rediscounts and of the $80,462,366 of rediscounts outstanding on June 30 last $34,968,338 were for account of agricultural credit associations, $44,956,686 for account of live stock loan companies, $15,266 for national banks, $517,076 for account of state banks and $5,000 for account of savings banks.

In other words these rediscounts for agricultural credit corporations and live stock loan companies represent 99.9 per cent of the business, and business with and for banks was more or less nominal. Nevertheless much if not most of this business of the Intermediate Banks was of a commercial bank nature.

The Intermediate Credit Banks and the agricultural and live stock loan companies form an inter-dependent and rather compact system which operates in direct competition with the commercial banks. Up to the past spring, when the Intermediate Credit Banks were given full facilities of the Federal Reserve and the advantage of the use of their debentures for Federal Reserve credit, interest rates charged borrowers were high,—around 8½ per cent during much of the past year where states permitted that rate. Under the advantages now offered the Intermediate Credit Banks by the Reserve, interest rates are lower but are still on a competitive level with commercial banks.

Doubtless some of these loans have features which render them undesirable from a bank standpoint but on the whole they represent considerable business which normally would go to commercial banks. Legally the maturities of such loans can run up to three years; the intention (CONTINUED ON PAGE 82)

GALLOWAY

**Is it true that popular suffrage prevents political leaders from using intelligence? Most leaders realize what is the matter with the world but do not know what they can do about it. They accept economic reforms in principle but find it difficult to apply them to their domestic policies**

# The Difference Between Politics and Common Sense

### The Proposed World Conference and the Voting Public at Home

GOVERNMENTS, in their international dealings, have a way of accepting a proposition "in principle"; which is a polite and diplomatic way of saying that the proposition as an abstraction is all right but as a matter of concrete application it is out of the picture. It may be relied upon that the forthcoming international economic conference to be held in Europe, with American participation, as an aftermath of the conference at Lausanne will be rich in propositions accepted in principle. Beyond that, results are in the lap of the gods.

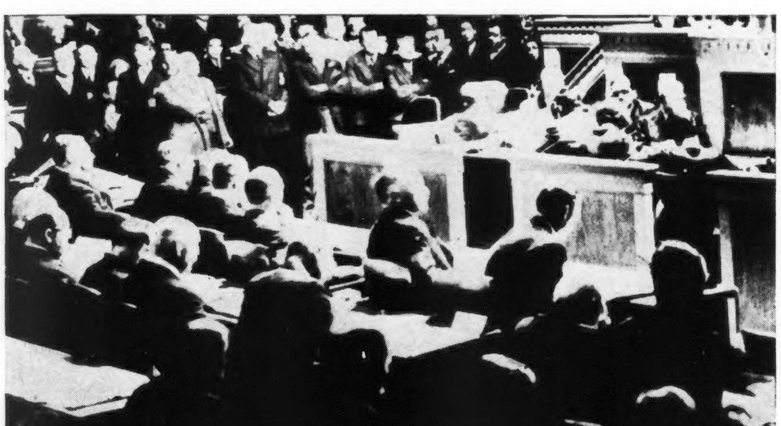
This does not necessarily involve a question of sincerity or good faith; indeed it merely conforms to the facts of the situation. The matter of tariffs offers an example. Probably nine out of ten of the economists, bankers, statesmen and practical business men realize that the tariff policies and restrictions on trade now being followed by practically all nations have a tendency to impede international trade. They are willing to accept a proposition for universal tariff reductions and adjustments in principle but when it is applied to their own country there are practical, usually political, considerations which seem to render actual acceptance impossible.

Current events illustrate the situation. In spite of the world impression that increased tariff rates and restrictions are ruining international trade Great Britain has recently adopted the protective tariff policy. Also it has bound or is binding itself in a series of tariff agreements with the self-governing British dominions. It considers this system and these treaties necessary for its economic rehabilitation under present conditions. Within the past month Germany has increased its tariff rates radically. It considers the increase necessary to protect its international balance of payments. France is applying a rigid system of import quotas for the same purpose. The 20 Latin-American republics are following a policy of high tariffs and trade restrictions for the same reason. Italy, Czechoslovakia, Austria, the Balkan states,—in short practically the whole world has adopted the policy.

Each nation claims that such action is necessary in its particular and peculiar situation. Such, indeed, may be the case. It would be very difficult to persuade any nation to accept the dire results of immediate collapse of the exchange value of its currency for the theoretical benefits of future improved world trade. In the United States there is not the least chance in the world that the tariff will be radically modified as the result of any expression of international opinion or the exposition of any theoretical principle set forth in conference resolutions. The Government in Washington is not even willing to permit tariff rates to be discussed at the conference.

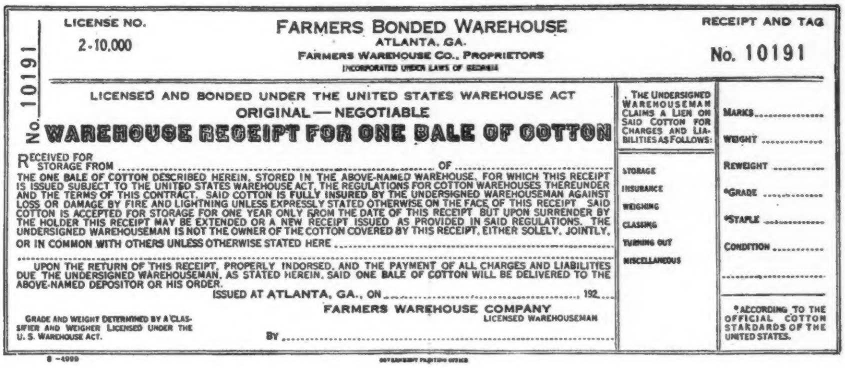
True, the approval of a principle and the rejection of its application leads nowhere. Eventually there must be a change in the policy of all nations if there is to be a revival of international trade; "why not now" is a logical inquiry. But how is it to be brought into practical realization if domestic politics are such that a statesman or government who makes the attempt will be swept out of power?

Aside from a consideration of tariff policies and trade restrictions, already limited even before the formal program is arranged, the work of the conference is practically confined to questions of national and international finance. It can and will consider monetary and credit policies, exchange difficulties, international loans and the position of silver. It cannot, under the agreement, consider reparations, inter-governmental debts (CONTINUED ON PAGE 87)



**When statesmen get together, each one is thinking chiefly about the political situation in his own country**

A specimen of warehouse receipt issued by a warehouse company licensed under the United States Warehouse Act



No. 10191

LICENSE NO.
2-10,000

FARMERS BONDED WAREHOUSE
ATLANTA, GA.
FARMERS WAREHOUSE CO., PROPRIETORS
INCORPORATED UNDER LAWS OF GEORGIA

RECEIPT AND TAG
No. 10191

LICENSED AND BONDED UNDER THE UNITED STATES WAREHOUSE ACT
ORIGINAL — NEGOTIABLE
WAREHOUSE RECEIPT FOR ONE BALE OF COTTON

RECEIVED FOR STORAGE FROM .................................... OF ....................................
THE ONE BALE OF COTTON DESCRIBED HEREIN, STORED IN THE ABOVE-NAMED WAREHOUSE, FOR WHICH THIS RECEIPT IS ISSUED SUBJECT TO THE UNITED STATES WAREHOUSE ACT, THE REGULATIONS FOR COTTON WAREHOUSES THEREUNDER AND THE TERMS OF THIS CONTRACT. SAID COTTON IS FULLY INSURED BY THE UNDERSIGNED WAREHOUSEMAN AGAINST LOSS OR DAMAGE BY FIRE AND LIGHTNING UNLESS EXPRESSLY STATED OTHERWISE ON THE FACE OF THIS RECEIPT. SAID COTTON IS ACCEPTED FOR STORAGE FOR ONE YEAR ONLY FROM THE DATE OF THIS RECEIPT BUT UPON SURRENDER BY THE HOLDER THIS RECEIPT MAY BE EXTENDED OR A NEW RECEIPT ISSUED AS PROVIDED IN SAID REGULATIONS. THE UNDERSIGNED WAREHOUSEMAN IS NOT THE OWNER OF THE COTTON COVERED BY THIS RECEIPT, EITHER SOLELY, JOINTLY, OR IN COMMON WITH OTHERS UNLESS OTHERWISE STATED HERE ....................................

UPON THE RETURN OF THIS RECEIPT, PROPERLY INDORSED, AND THE PAYMENT OF ALL CHARGES AND LIABILITIES DUE THE UNDERSIGNED WAREHOUSEMAN, AS STATED HEREIN, SAID ONE BALE OF COTTON WILL BE DELIVERED TO THE ABOVE-NAMED DEPOSITOR OR HIS ORDER.

ISSUED AT ATLANTA, GA., ON .................................... 192...

FARMERS WAREHOUSE COMPANY
LICENSED WAREHOUSEMAN

GRADE AND WEIGHT DETERMINED BY A CLASSIFIER AND WEIGHER LICENSED UNDER THE U. S. WAREHOUSE ACT.

BY ....................................

THE UNDERSIGNED WAREHOUSEMAN CLAIMS A LIEN ON SAID COTTON FOR CHARGES AND LIABILITIES AS FOLLOWS:

STORAGE
INSURANCE
WEIGHING
CLASSING
TURNING OUT
MISCELLANEOUS

MARKS ..........
WEIGHT ..........
REWEIGHT ..........
*GRADE ..........
*STAPLE ..........
CONDITION ..........

*ACCORDING TO THE OFFICIAL COTTON STANDARDS OF THE UNITED STATES.

8-4999

GOVERNMENT PRINTING OFFICE

# Warehouse Receipts

## One Method of Measuring Safety and Acceptability

By A. T. GIBSON

THE trend toward more extensive use of the trade acceptance and other means of documentary finance is indicative of the general business and banking effort to give assistance at a time when everything that can be done must be done to improve business conditions. Certainly no other credit instrument has contributed to any business, even approximately, what the warehouse receipt has contributed to the cotton, grain and wool businesses in the matter of credit.

The trade acceptance, the use of which has been extensively advocated recently as one means of relief, is of course a most helpful way of releasing assets that otherwise would be tied up in receivables. But assistance must be carried closer to the point of production to provide the maximum amount of financial relief to the manufacturers and producers of staple commodities, who find that the demands of hand-to-mouth-buying require them not only to keep many spot stocks adjacent to the various markets but also to maintain a large inventory at the point of production or manufacture. Perhaps the best way to emphasize the relative importance of funds tied up in accounts receivable and in inventories that would break up largely into staple and readily marketable raw materials or finished products, is to glance at a few recent financial statements of leading manufacturers.

LEWIS & CARROLL

**Mr. Gibson is chairman, Committee on Banking Relations, American Warehousemen's Association, and president, Lawrence Warehouse Company, San Francisco, California**

A large cartridge company, for example, with a 3 to 1 ratio of current assets to current liabilities, shows accounts receivable amounting to $1,800,000. Its inventory of raw materials exceeds $5,000,000; its finished products, over $1,800,000; its goods in process over $2,300,000—a total inventory of over $9,000,000.

A sugar refinery shows accounts receivable as approximately $600,000, whereas its inventory of unsold refined sugar approximates $5,500,000, nearly 10 times the receivables. In this instance the ratio of current assets to current liabilities was only about 1½ to 1, indicating in all probability a genuine need for some means of releasing some working capital.

A very large canner of fish shows accounts receivable of slightly more than $100,000, while the canned goods on hand, at cost, exceeds $4,000,000.

Another, a packer of fruits and vegetables, shows accounts receivable of slightly more than $4,800,000, with an inventory of merchandise of over $15,000,000 cost value.

Examples such as these are typical rather than exceptional. Similar conditions could be drawn upon almost indefinitely, covering the producers and manufacturers of various basic commodities.

In 1931, the dollar volume of bankers' acceptances based on domestic warehouse receipts reached an aggregate amount of $1,485,000,000. And while this figure represents an increase, over 1930, of $124,000,000 in this classification of acceptance credit, there is still a possibility of tremendous expansion in the use of inventory as a means of securing loans. This is true not only of commodities being kept in metropolitan warehouses, but of merchandise and raw materials held at the point of production and of conversion into finished products.

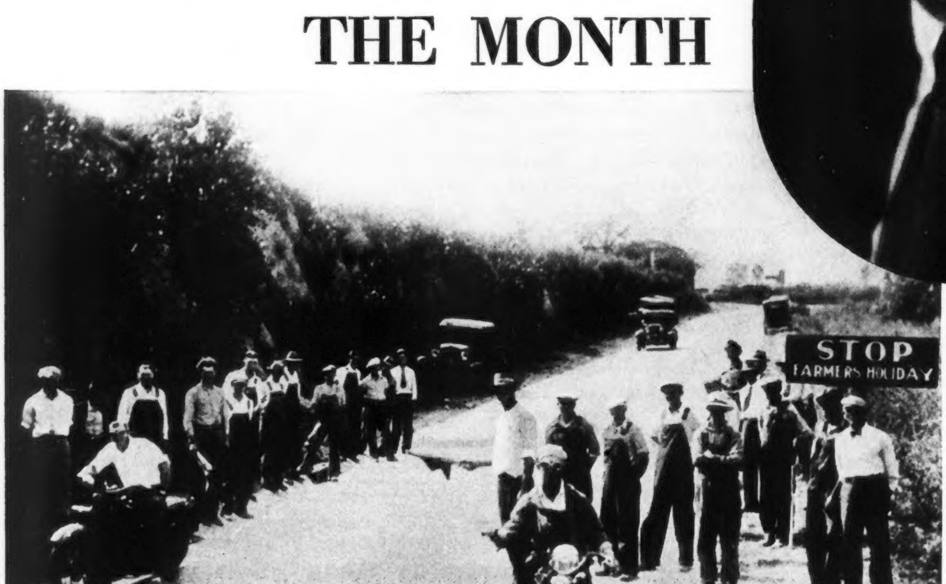
To those who have not followed closely the use of the warehouse receipt as a credit in- (CONTINUED ON PAGE 91)

EMPLOYMENT—W. C. Teagle, president of the Standard Oil Company of New Jersey, who was appointed by Mr. Hoover to direct the national share-the-work movement for spreading employment

DEBTS?—Governor Norman of the Bank of England has just returned to England after a brief holiday in the United States. Mr. Norman's American holidays usually have important results. The picture above, taken April 7, 1931, shows Mr. Norman in Washington, smiling, between Mr. Mellon and Mr. Meyer. A few weeks later, the British Treasury recalled $100,000,000 of its New York credit established in 1925

# THE MONTH

CONFIDENCE—Henry M. Robinson, chairman of the board of the Security-First National Bank of Los Angeles, who was appointed by Mr. Hoover as chairman of the Central Committee of the National Conference Business and Industrial Committees




HARVEST—Concurrently with the first signs of improvement, discontent in the farming districts manifests itself in the idea of a holiday for the purpose of preventing delivery of commodities to the market at present prices

# EDITORIALS

## Destructive Party Politics

ON August 23, 1792, President Washington wrote a long letter to Thomas Jefferson, his Secretary of State, dealing with certain intrigues between the Spaniards and several southern Indian tribes, and he added this thought:

"How unfortunate and how much to be regretted is it then, that, while we are encompassed on all sides with avowed enemies and insidious friends, internal dissentions should be harrowing and tearing our vitals". He expressed the fear that party politics, which then was rearing its head for the first time in our history, would weaken and wreck the Union.

### THEN TO HAMILTON

THREE days later, he wrote to Alexander Hamilton, his Secretary of the Treasury, pointing out the destructive character of party feelings:

"Differences in political opinions are as unavoidable as, to a certain extent, they may perhaps be necessary; but it is exceedingly to be regretted that subjects cannot be discussed with temper on the one hand, or decisions submitted to without having the motives which led to them, improperly implicated on the other; and this regret borders on chagrin when we find that men of abilities, zealous patriots, having the same general objects in view and the same upright intentions to prosecute them, will not exercise more charity in deciding on the opinions and actions of one another."

The occasion for this advice was the fact that Hamilton and Jefferson had disagreed. Both favored building the United States of America into a powerful nation but insisted on using different words to describe how to do it. Hamilton wanted authority at the top and distrusted public intelligence. Jefferson professed faith in the common man and favored a decentralized form of Union.

### MAKE-BELIEVE

THERE has never been but one issue in American politics since the end of the Revolution and this, by its very nature, has become ephemeral—a jest which proves that we are not serious and that party leaders do not mean what they say. This issue is the one involving the extent to which it is wise to concentrate power in the Federal Government. Conservatism, liberalism, the tariff, national prohibition, defense, trade, finance and all the great matters which have occupied the attention of politicians from time to time have a common center in the issue that started the quarrel beween Jefferson and Hamilton.

As a rule Americans enjoy their politics with a zest not equalled anywhere else in the world. Particularly at a time like this when we are deciding on a head man for the next four years, we solemnly take sides and turn loose our prejudices, safe in the knowledge that the result will not change America.

### GRIM OVERSEAS

IN LESS fortunate countries, where political issues are regarded as genuine, there is a tendency to make hard work out of something that should be a pleasure. Parties abroad reflect certain specific doctrines, philosophies or religions, and the numerical strength of a party rises or falls with the popularity of its own patent medicine. In America there is only one dominant political purpose and the various parties shift here and there, back and forth, in diligent attempts to conform.

Watching this performance and participating in it we find a campaign fascinating, despite the fact that most of the tricks and antics now in favor were old when Tiberius Gracchus used them in 135 B. C.

## Should The Rule Against Perpetuities Be Extended?

IN AN article in this Journal "Should the Rule Against Perpetuities Be Extended?" Mr. Runk states the practical reason why public interest requires that the rule be kept as it is—that the period, "life or lives in being and twenty-one years thereafter", should neither be shortened nor lengthened.

There are at least two reasons, to which Mr. Runk does not allude, why personal interests also, as well as the public interest, require that the rule should be maintained as it is.

The first reason is that an ancestor cannot, in the nature of things, foresee or provide for the needs of an adult descendant living a full generation or more after the ancestor's death. The instances in which such descendants would be benefited would be more than matched by instances in which beneficiaries would be enervated, disspirited and rendered useless to themselves and to society by being freed of the necessity of earning their livelihood and taking pot-luck with independent, self-supporting persons.

### CONTRASTS IN FUNCTIONS

THE second reason—which is quite as much in the public as in personal interest—is that a trustee, even though clothed with absolute powers of alienation and management, cannot handle trusteed wealth as actively and progressively as the owner can handle private wealth. The trustee's prime function is conservation, not creation, of wealth.

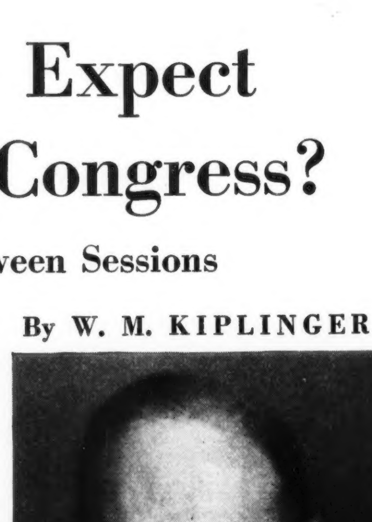
UNDERWOOD

**Silence—The United States Senate Chamber until December**

# What Can Bankers Expect of Next December's Congress?

## A View of the Outlook Midway Between Sessions

By W. M. KIPLINGER



**Mr. Kiplinger knows when Congressmen are at play and when they should be taken seriously**

OCTOBER. Only two months until the next session of Congress. The same Congress, the same members, the same organization as in the old session, for it is the "lame duck" short session, opening in December, closing in March. The same unfinished bills hanging over, preserving the same status and position they held on adjournment day.

A Presidential election meanwhile. Also a mild revival of business meanwhile,—perhaps. These two factors are largely determinative of legislative prospects at the next session.

Congress is about evenly divided between the two parties, with a margin of irregulars of both parties, so that neither party actually dominates. Whichever party wins a clear majority of Congress in the November elections will control in spirit, and for practical purposes, the hang-over short session in December, even though the new members do not take office until later.

On banking and credit legislation this is only partly true. Legislation of this character is essentially non-partisan, and this will be the case particularly in the next short session, when the emotions of politics will be at low ebb, like the lethargy of a morning after a late night.

Neither party has any clear lines of differentiation on major economic policies, although small or subtle differences are made to appear acute in these haranguing days. Banking and credit legislation in the next session will depend mainly, therefore, on individual conceptions of merit, and party lines will not be drawn closely.

This applies to the following issues: (a) Glass banking reform bill; (b) currency inflation; (c) refinancing or refunding of farm mortgages,—a form of inflation; (d) revision of war debts.

These have not been, and will not be real party issues. Hence it behooves all men whose interests are affected by any one or more of these issues to look sharp to the individual attitudes of candidates

for Congress on both major tickets. (The same applies, of course, to many other issues in addition to those relating to credit, finance and banking.)

Consider the prospects for these pieces of legislation, in so far as it is possible to see ahead through the clouds of political dust, steam and hot air now besetting us.

**The Glass banking reform bill.** This would legalize branch banking, put group banks under regulation and restriction, put security affiliates of banks under a system of examination, tighten up the supervisory and regulatory powers of the Federal Reserve System over member banks, and otherwise take a few steps toward a unified national system of banking.

It has passed through the Senate committee stage and is ready for a Senate vote in the winter session. Probably it will be passed by the Senate, with various amendments, and go to the House. The House has been suspicious of the branch banking provisions. Whether the House will pass it and make it law depends entirely on how the propaganda develops, pro and con, between now and midwinter.

Most members of Congress have no original or well-defined personal opinions on the subject of branch banking, or on the other complicated banking matters covered in the Glass bill. They make their attitudes to fit what they think are the wishes of their respective constituencies.

**Currency inflation.** This is doubtless the biggest single issue hanging over Congress. It appears in many forms and many measures. Some bills approach the subject frankly from the front. Others sneak up from the rear, with inflation concealed in their pockets, but without effectual concealment of their purpose and intent.

Currency inflation *was* and *was not* accomplished in the last session.

In saying that it *was* accomplished, I mean that the underpinning of the currency was robbed of a considerable amount of unneeded gold, for which were substituted Government bonds. This was done under the Glass-Steagall act, and under the Glass amendment to the Home Loan Act.

In saying that currency inflation *was not* accomplished, I mean that there was no real debasement of the value or purchasing power of money. No large scale printing press operations were authorized. There was no soldiers' bonus, payable in fiat money; there was no enactment of the Goldsborough bill to direct the Federal Reserve System to expand credit so as to raise prices. To whatever extent printing press operations were authorized in the eleventh-hour Glass amendment to the Home Loan Act, counter-vailing contraction of Federal Reserve notes (the dominating currency) is possible and probable.

Without going too far into the fine points and producing a book, it can be said that essentially no effective currency inflation came from the last session of Congress.

Probably no currency inflation will come from the next session—probably. There will be no soldiers' bonus, no Goldsborough bill, no adoption of silver as a currency base, no bimetallism.

UNDERWOOD

**Representative Henry B. Steagall, of Alabama, chairman of the House Committee on Banking and Currency, who stated recently that he intended to revive in December his Bank Deposit Guaranty Bill**

But the push for some sort of additional credit expansion will be strong, provided commodity prices do not continue strong through the winter. By commodity prices I mean mainly agricultural prices, for the farmers are the one and only debtor class which wields great political power. The farmers have mortgage debts. Most farmers cannot meet mortgage payments with present low prices of their products. The farmers are more effectively represented in Washington than any other group of citizens. If farm prices are unsatisfactory next winter, therefore, farmers will get behind some measure like the Frazier bill, to refund mortgages for a long period, at low interest rate, with the expense loaded on the Federal Government.

Although farmer interest is the center of the inflation movement, it is not all. In the past six months the pro-inflation public sentiment has grown among all debtor classes, and some form of outright inflation was narrowly avoided in the congressional session just ended. This is a fact not to be confused with the pro or con merits.

Both the lay public and the business public are ill-informed on the ultimate effects of inflation. They don't know how it works. They are sure of only one thing,—that they want higher prices. They reason in quite simple terms that if prices will not go up, then money must be dragged down, so that the shirt and the britches will meet in the middle.

Bankers would do well to explain to their customers, and particularly to their little customers, how the circle of currency inflation works, how it works on the other side of the circle.

The Glass amendment, hung on the Home Loan Act, to provide for new national bank notes based on certain Government bonds rather than merely on the old 2's, is generally considered in Washington as futile for the present, and as dangerous for the future. Practically, for the present, it represents such a small dose of theoretical currency expansion as to be ineffective in raising prices. (Practically it had some political or tactical merit in staving off other forms of inflationary legislation in the past session.)

The Washington attitude generally is that the measure is a gold brick. It does not and will not put more money into actual circulation. Effort to have it repealed will be made in the winter session. I doubt whether it will succeed. In any case, it will expire in three years under the law as passed.

**Revision of war debts.** The political attitude toward war debts is distinctly two-faced, and consists largely of kidding the public. Leading politicians of both parties say privately that they know full well the debts must be revised downward. But they want to soft-pedal the issue until after the elections. Then they want to go full-steam ahead, (a) to get an extension of the moratorium for another year, (b) to hold a revision conference within the year.

Any categorical statement of intention, such as this, is subject to all sorts of denials, qualifications or explanations. A few of the leading politicians are not in favor of revision. None is in favor of revision unless it can be accompanied by reduction of armament expenses of the debtors, and ultimately of ourselves. (CONTINUED ON PAGE 80)

# Thrift Trusts

By GILBERT T. STEPHENSON

## The Experience of a Philadelphia Industrial Concern During the Last Eight Years

THIS is the sixth of a series of seven articles on industrial trusts. The purpose of the series is to call the attention of American industry to the ways in which banks and trust companies, through their trust departments, may be helpful to industry in meeting its social obligations to its employees.

No novelty whatever is claimed for any of the types of trusts suggested in the series. The point is: Each of the types of trusts described is now in operation in one or more American trust institutions for one or more American industries. But up to this time such trusts are so few in number and so widely scattered that trust institutions have made little or no effort to acquaint industry in general with them. Consequently, industry does not know what trust institutions are equipped to do for them in this respect. Industrial trusts are now in the stage of development that life insurance trusts were in 1910—occasionally created but not recognized as a regular branch of trust service.

UP to this point in the series, we have discussed four distinct types of industrial trusts—namely, trusts for the stabilization of employment, trusts for the relief of the temporarily incapacitated, trusts for the reward of special merit, and trusts for the retired—pension trusts. In this article we shall discuss trusts for the promotion of thrift, and in the next and last article, trusts to induce profit-sharing.

Three of these six types of industrial trusts, it will be seen, are remedial in nature and three, creative. Through trusts for the stabilization of employment, for the relief of the incapacitated and for the permanently retired, industry is attempting, commendably, to take care of its employees—to prevent unemployment, to relieve the sick or temporarily incapacitated and to provide for the permanently retired and superannuated. Through trusts to reward special merit, to encourage thrift, and to induce profit-sharing, industry is attempting, equally commendably, to help its employees to take care of themselves—to be self-supporting even during periods of unemployment, to provide for their own sickness or incapacity, and to have an ample amount laid by for the time of retirement and old age. As between the two, industry and its employees alike prefer the creative to the remedial trusts.

While there are any number of thrift plans designed to encourage and enable employees to save and accumulate and lay by a sufficiency for unemployment or illness or old age, comparatively few of the plans call for the services of a trustee. Yet, as in the case of the industrial trusts already described, there is a noticeable tendency now to introduce the element of trusteeship.

We cannot do better than to describe a thrift plan that does make use of a trustee.

In 1923 an industrial plant in Philadelphia established a thrift fund. The fund is made up of deposits by the employees and certain contributions by the company. The company issues to the employees thrift certificates bearing 7 per cent interest.

In 1924, the company established a trust with a Philadelphia institution for the purpose of guaranteeing the payment of the certificates. The corporation delivered to the trustee certain securities to be held in trust.

So long as there is no default in the payment of the 7 per cent interest on the certificates, the trustee pays all the income direct to the company. Each year the company certifies to the trustee the amount of outstanding 7 per cent certificates. If the amount of certificates is more than the then market value of the trust properties, the company must at once make up the difference, so that at all times the market value of the securities in the hands of the trustee will at least equal the outstanding certificates. If, on the other hand, the securities in trust have a market value more than the face value of outstanding certificates the company may withdraw the excess securities.

So long as things are running smoothly, the company pays to the employees the 7 per cent on the certificates, and the trustee pays to the company all the interest and dividends and other income from the trust property. If the company fails to pay the 7 per cent, the trustee begins at once to make the payments direct to the certificate holders. In the event of continued default on the part of the company, the trustee will dispose of securities and apply the proceeds to the payment of the principal and interest of the certificates.

The trustee is clothed with the usual powers of investment and administration. It has express power to collect, receive, and receipt for all income; to sell at public or private sale; to execute all necessary (CONTINUED ON PAGE 78)

**The November JOURNAL will carry the last of the series of articles by Gilbert T. Stephenson, vice president of the Equitable Trust Company, Wilmington, Delaware, on industrial trusts. Owing to the fact that the series has aroused unusual interest among trust men, all of the articles will be reprinted by the JOURNAL in a special booklet**

LOS ANGELES

· 1781 ·

*Four leagues from the Mission of San Gabriel,*
TEODORO DE CROIX, *Commandante General,*
*Directed a pueblo forthwith to be founded,*
*And bade colonizers at once to be rounded*
*Up from Sonora, Sinoloa, Granada,*
*By Captain* FERNANDO RIVERA Y MONCADA.
*Eleven pobladores, with families and fixtures,*
*All Spanish, mulatto, and Indian mixtures,*
*Through the dangers of desert and Indian brave,*
*Were escorted to Governor* FELIPE DE NEVE.
*The Image of Santa Maria on high,*
*The cross and the banner of Spain to the sky,*
*Chanting, the march round the new plaza passes,*
*And Fathers* CRUSADO *and* SANCHEZ *say masses.*
*So Governor* FELIPE DE NEVE *the square bounded,*
*And El Pueblo de Nuestra Senora, la Reina*
*de* LOS ANGELES *founded.*


# The New-York Times.

...NO. 7440. NEW-YORK, WEDNESDAY, JULY 21, 1875. PRICE FOUR CENTS.


## THE BANKERS AT SARATOGA

### THE CONVENTION OPENED AND ORGANIZED YESTERDAY.

**THE LIST OF DELEGATES—ELECTION OF OFFICERS—SPEECH OF CHAIRMAN HALL, OF BOSTON—THE ANNOYANCES OF THE BANKING BUSINESS—SPECIE PAYMENTS—RESOLUTIONS AND ADDRESSES—LOCAL TAXATION OF BANKS—THE USURY LAW—THE CONVENTION DECLINES TO HEAR EX-GOV. BIGLER, OF THE CENTENNIAL EXPOSITION.**

*From Our Own Correspondent.*

SARATOGA SPRINGS, N. Y., Tuesday, July 20, 1875.

The Bankers' Convention began to-day at this place in the Town Hall. The preliminaries for it were arranged last night at the meeting of the committee at the Grand Union Hotel, and precisely at the hour designated for calling the representatives to order they were present in large numbers, wearing the badges distributed to them by Mr. Leabe yesterday at the First National Bank, and Mr. Richards, of the banking institution adjacent. The following is a complete list of those who had registered their names with the Reception Committee up to 2 P. M. to-day:

*Alabama.*—Josiah Morris, banker, Montgomery... [illegible]

...Green Bay.

A little after 11 o'clock the meeting was called to order by Mr. Scully, who nominated Mr. Upton, of Rochester, as temporary Chairman, and on motion thereafter it was resolved that they should appoint a committee of nine on permanent organization. The following gentlemen were chosen: E. C. Breck, of St. Louis; A. P. Palmer, Albany; R. B. Conent, Boston; Morton McMichael, Philadelphia; George W. Perkins, New-York; W. A. D. Hayes, Detroit; J. L. Leonard, Dallas, Texas; George A. Ives, Chicago; J. W. Lockwood, Richmond, Va. Mr. Cadder, of Philadelphia, then moved that Gov. Bigler, the Financial Agent of the Centennial, should be invited to address the meeting to-morrow, but after two proposals of the question, the motion did not prevail, a very large majority voting against it. The declaration of the result by the chair was hailed with applause, and evidently gratified the convention.

Mr. A. W. Sherman, of New-York, next requested that Hon. J. Buell, President of the Importers' and Traders' National Bank of New-York, be asked to give the convention his views on several financial topics; but that gentleman declined to do so at this time, not denying, however, that he might be induced to speak before the convention closed. The committee, after a very brief retirement, reported the following names as their recommendations for permanent officers in the organization: Chairman, Hon. C. B. Hall, of Boston; Secretary, Mr. Howenstein, Cashier of the Valley National Bank, of St. Louis; Treasurer, A. W. Sherman, Cashier of the Dry Goods Bank, of New-York City. The committee likewise recommended that the list of Vice-Presidents be composed of one delegate from each State and Territory represented in the convention, to be named in the morning at the opening of the second day's session.

On taking the chair Mr. Hall made a short speech, thanking the convention that had conferred such an honor on him. He recognized, in the organization of the meeting a very high compliment to New-England, which he thought had not so good a claim to the offices conferred upon it as many of the New-York State banking magnates, to whom it might have been properly tendered. He accepted the Presidency strictly under the call prepared by the committee, noting particularly that section which stated that no political or sectional topic should be introduced into the deliberations. While clinging to what he deemed the central feature of the document—pleasure, fellowship, and closer union—he could not refrain from referring to what was ever present in the minds of officers of banking institutions—existing annoyances. They were numerous, but he would merely mention two or three. First was that of the two-cent stamp, which was felt by every gentleman who drew a check, and which returned certainly not more than $150,000 a year; also the war tax, under which every man in his business had labored when other disadvantages had been removed; thus, too, there was the half per cent. tax on capital in this State, and the levy on deposits. Then the speaker turned to the question of specie resumption, saying we all want to get back to it because it is what we seem to need; but he was not one of those who thought that the prosperity of the country depended on its immediate renewal. [Applause.] England had shown that a nation could go twenty-seven years prosperously without resuming specie payment after a great war. The question settled itself there, as it will undoubtedly here, in a very natural way. He commended the present system of banking institutions throughout the country, and the act under which they exist, and which will only need occasional amendment in the future to meet exigencies. With another grateful tribute to the men whom he styled the holiday givers, Mr. Hall closed and was warmly applauded.

Mr. Hall's last remark was that when the convention was fully organized no business should be transacted that might not tend to the fulfillment of the purposes expressed in the call.

Mr. Upton, of Rochester, suggested that the question of local taxation of the banks in the State of New-York, which was simply outrageous, and demanded immediate remedial measures, was a fit subject for the consideration of the convention. The assessments in each district were largely discretionary with the assessors. The usury law, too, was calculated not so much for protection as to help an astute rascal to swindle honest men. He intimated that, in his judgment, the appointment of a committee to deliberate on the subject and report those views back to the convention, would be wise.

Before any action was taken on this subject, on motion of Mr. Buell, of New-York, a Committee on Resolutions was appointed by the Chair as follows: E. Buell, New-York; J. Noyes, Hanover, Mass.; Luther Bodman, Northampton, Mass.; John Hurst, Baltimore; L. J. Gage, Chicago; J. A. Lockwood, Richmond; D. S. Puntup, Rome, Ga.; Edward Taylor, Boston; James J. Tarlton, New-Orleans; C. H. Chapin, Rochester; John D. Scully, Pittsburg, Penn.

Thomas F. McGraw, of Springfield, Ohio, then offered the following resolution, which was referred to the newly-appointed committee for consideration:

*Resolved*, That it is the opinion of this convention that an act to provide for the resumption of specie payments, approved Jan. 14, 1875, ought to be amended so as to provide for the gradual contraction of all the legal tender circulation, and the time of resumption extended to the 1st of January, 1885, to afford time for the business of the country to adjust itself to the change without a sudden fall of prices.

Mr. Howe, of Pennsylvania moved that a committee of five be appointed to consider the usury laws, which was deemed hardly in order by the Chair.

Mr. S. D. Hays, of Detroit, offered his resolution, which was also referred to the committee.

*Whereas*, The commercial interests of the country are at times subject to sudden fluctuations in values of the productions of the country, causing alarm and distrust among bankers and capitalists, and causing stringent money markets, while at other times there is an apparent large surplus of money seeking investment, and as there are causes for such changes in business that might be avoided therefore

*Resolved*, That this convention deems the subject of the commercial crisis or monetary panic a proper one for discussion with a view to ascertaining the cause and the means necessary for preventing them.

Mr. McGraw then asked that the subject of usury laws be also referred to the Committee on Resolutions, and it was so ordered.

Before this was achieved, however, some discussion arose as to the propriety of this convention's considering a law which was in operation in New-York and some other States, but not in all.

The President asked to what law the gentleman referred as none such existed in Massachusetts.

The debate was of a friendly character, and the matter was adjusted as above indicated.

Mr. Foster, of Texas, here offered the following resolution.

*Whereas*, experience has shown that the retention of usury laws in certain States is utterly impracticable for the purpose desired, therefore,

*Resolved*, That this convention will use every effort, either as a body or as individuals, to get such laws passed by the Legislatures or the Congress of the United States as will allow free trade in money between borrowers and lenders to be regulated simply by the supply and demand.

Mr. Hays thought the convention had reached a point where it would be necessary to decide whether its character should be national with State branches, and to define the organization.

Mr. Van Slyke, of Wisconsin, moved the appointment of a committee of nine to report a form of permanent organization of the National Bankers' Association.

It is but proper to say that at this stage of the convention, motions, resolutions, and suggestions were offered simply as feelers.

Mr. Gaston, of Newark, N. J., presented the following: "Should a bank indorsement upon a note or check be held as a guarantee of all previous indorsements, whether made by principal or attorney?"

Mr. Roots, of Arkansas, in presenting the following resolution, remarked that it would be well to increase the number of the Committee on Resolutions by adding one representative from each State and Territory:

*Resolved*, That requiring national banks to redeem their circulation, while in good condition for use at any other locality than the bank of issue, is an unjust hardship that should be repealed at the earliest possible moment.

The matter was compromised by adding Mr. Roots to the committee.

On motion of Mr. Griffin, of Toledo, the convention was asked to reconsider the vote whereby it had decided not to hear ex-Gov. Bigler, which was denied, and after some debate the convention adjourned till 10 A. M., to-morrow. The Committee on Resolutions remained in the hall after the adjournment.

The Committee on Resolutions held several sessions during the day, and, it is understood, devoted their attention more particularly to the usury law and how to amend it, and also to the question of bank local taxation. It is believed to-night that these two topics will engross the greater part of the discussions that may be had during the coming days. A great many bankers have arrived during the evening in addition to those already named.

WASHINGTON.

A THRILLING STORY.

# THE BANKERS' CONVENTION.

## *THE RESOLUTIONS ADOPTED.*

### THE VICE PRESIDENTS—THE ABOLITION OF THE GOVERNMENT BANK TAX AND OF THE TWO-CENT STAMP RECOMMENDED—THE QUESTION OF SPECIE PAYMENTS—THE CENTENNIAL OPPOSED.

*From Our Own Correspondent.*

SARATOGA, Wednesday, July 21, 1875.

At 10 o'clock the convention was called to order and President Hall, in pursuance of the resolution passed yesterday, requested the delegates to select Vice Presidents from each State and Territory represented. The names reported and approved were as follows: W. H. Foster, Salem, Mass.; L. W. Ballou, Woonsocket, R. I.; J. L. Leonard, Dallas, Texas; E. P. Kimball, Portsmouth, N. H.; C. E. Prentiss, Washington, D. C.; J. Thomas Smith, Baltimore, Md.; R. J. Baldwin, Minneapolis, Minn.; J. D. Sculley, Pittsburg, Penn.; G. H. Hawkins, Americus, Ga.; S. L. Withey, Grand Rapids, Mich.; Thomas F. McGraw, Springfield, Ohio; R. L. McElhany, Springfield, Mo.; Logan C. Murray, Louisville, Ky.; Josiah Morris, Montgomery, Ala.; W. A. Ridgely, Springfield, Ill.; Charles Whitehead, Trenton, N. J.; F. A. W. Davis, Indianapolis, Ind.; C. E. Houghton, North Bennington, Vt.; Logan H. Roots, Little Rock, Ark.; George F. Baker, New-York; R. H. McDaniel, San Francisco, Cal.; J. W. H. Watson, Newport, Del.; T. W. C. Moore, Jacksonville, Fla.; James J. Tarlton, New-Orleans, La.; Ezra Millard, Omaha, Neb.; C. W. Fracker, Marshalltown, Iowa; N. B. Van Slyke, Madison, Wis.; William A. Winship, Portland, Me.; G. A. Scoville, Fort Scott, Kan.; W. L. Gilbert, Winsted, Conn.; J. W. Lockwood, Richmond, Va.; N. G. Loper, Charleston, S. C.

The first regular business of the morning was then reached, and Mr. Buell, of New-York, Chairman of the Committee on Resolutions, reported the following resolutions:

*Resolved*, That in the opinion of the convention it should be the effort of every good citizen to hasten the day when the every promise of our Government to pay a dollar shall be honestly redeemed in coin.

*Resolved*, That, ten years after the close of the war, the time has arrived when the especially burdensome war tax imposed on banks should be greatly reduced or entirely abolished, as now, in some localities, the national tax, added to the local taxes, aggregates over seven per cent. on working capital.

*Resolved*, That it is the sense of this convention that Congress should authorize the Treasurer of the United States to furnish coupon bonds in exchange for registered bonds of like tenor and date, on application of the legal owner.

*Resolved*, That the two-cent stamp tax on checks and vouchers bears so vexatiously upon the commercial public, and that the benefit is so inconsiderable, that it ought to be abolished.

Your committee having considered the question of a permanent organization, beg to express it as their opinion that such a permanent organization be made conducive to the interests of the banking system; we therefore recommend, when this convention adjourns, it adjourn to meet in the City of ——, in the Summer of 1876, at the call of the committee of nine to be appointed by the Chair. We further recommend that the committee so appointed shall be charged with the duty of designating time and place of such meeting, and of drafting forms for a permanent organization, to be submitted at such adjourned meeting, and that the committee be authorized and requested to invite speakers to address our meeting on designated subjects, and to take such further action as will tend to make the association permanent and effective.

The resolutions were adopted.

Mr. Buell, by special request, reviewed the financial condition of the country briefly, treating the question of specie resumption much as President Hall did yesterday, adding that "when the National Government went out of the banking business, that is, ceased to intermeddle, the banks could settle the bugbear satisfactorily."

Mr. T. F. McGraw, of Ohio, favored the resolution, but thought that the one he now offered more fully covered the requirements:

*Resolved*, That it is the opinion of this convention that "An act to provide for the resumption of specie payments," approved January the 14th, 1875, ought to be amended so as to provide for the gradual contraction of *all* the legal-tender circulation, and the time of resumption extended to the 1st of January, 1885, so as to afford time for the business of the country to adjust itself to the change without a sudden fall of general prices.

After several minor amendments offered by Messrs. Baker, of New-York, and Powers, of Pennsylvania, the committee's report was adopted.

A motion was next made asking for the selection of Louisville, Ky., and Philadelphia, as the next place of meeting, but the time and place was left to the committee, and on motion of Mr. Hayes, of Detroit, the method of permanent organization was taken up. Here a long debate ensued on assessment of members to pay the expenses of this convention. It lasted an hour and a half, the final resolve being that each member should be taxed $10.

The following resolutions were then adopted, and the convention adjourned until to-morrow at 10 A. M.:

*Resolved*, That the members of this convention do most heartily approve the action of the Congress of the United States in providing by proper law for the celebration of the coming centennial anniversary of our national independence by means of an international exhibition of arts, manufactures, and the products of the soil and the mines, to be conducted under the auspices of the Government of the United States; and that they are ready to co-operate with those officially engaged in making the necessary preparations for this great national undertaking, now so closely identified with the honor and dignity of the whole country.

*Resolved*, That a committee of three be appointed by the Chair to wait on Gov. Bigler, of Pennsylvania, to correct any misapprehension in regard to our action of yesterday with reference to the great Centennial, and to inform him that, as individual members of this convention, it would afford us much pleasure to hear this distinguished gentleman upon the great subject which he advocates and loves, and that the time be at 8 o'clock this evening.

Gov. Bigler, in response to the invitation, addressed the members in the Town Hall. He said, in substance, after thanking the bankers, that it would be a fitting thing for the bankers to take an important part in the Centennial ceremonies, commemorating the achievements of the Republic in the first 100 years of its existence, for the financial men of 1776 took the most active and conspicuous part in the struggle for independence. He was happy to say the banks had agreed upon an organization through which they would present a creditable exhibition illustrative to the world of the use of coin and circulating medium; and what was still better, they have begun at New-York and elsewhere to make liberal subscriptions to the Centennial stock. He said there were 2,000 national banks, and that a moderate contribution from each would meet the needs of the Centennial up to the 1st of January. So far as the banks have subscribed, they have given from $1,000 to $5,000 apiece. He said that the total capital would be about $6,000,000. About $5,500,000 have been secured. He described the buildings and the extensive preparations, and closed with a description of what may be anticipated when this great display of the Western World's progress shall be seen at Philadelphia.

Messrs. Stephens, of Missouri, and Root, of Arkansas, likewise addressed the delegation.

# Banking Cooperation

AS America emerges from the period of uncertainty and enters an era of reconstruction the need for sincere, cordial teamwork between component parts of our complicated banking structure is greater than ever.

Confronted by the problem of restoring public confidence, other matters must take second place, for confidence rests on strength and strength in turn comes only through effective cooperation. Public interest and banking interest alike demand safe and profitable banking and only by the fullest use of the existing machinery of cooperation, with constant additions and refinements to meet changing requirements, can banking render maximum service. Banks must be free from the menace of hostile, demagogic legislation and the constant encroachment of government into the field of constructive, private endeavor.

The situation calls for a specific remedial program:

1. Interest payments, which absorb so great a part of banking income today, should be the subject of unceasing, thorough, nation-wide study. The first step has already been taken by the Bank Management Commission of the American Bankers Association whose findings were presented in the September JOURNAL. While national uniformity in the price of deposits is perhaps unnecessary and inadvisable, yet cooperation on a national scale certainly will result in determining what constitutes safe and reasonable rates for various types of deposits. Only by facing this problem together can banks end once and for all paying more for deposits than the money is worth to the banks.

2. Unprofitable deposits should be eliminated and the only way this can be done is by banks agreeing on a common policy. Not only are deposits of a certain type a perennial source of loss, but they are also a real danger in times of emergency, as many banks have learned in recent years. Among the methods for handling such accounts are minimum deposit requirements, and service charges that get away from the fallacious basis of size and are founded on the bedrock of services rendered. These are things concerning which we know just enough to realize the need for wider knowledge, where earnest cooperation on a more complete scale than ever is the first essential.

3. Loan analysis from the standpoint of actuarial repayment-expectancy is a field that has hardly been touched. The insurance man when he writes a policy knows the employment or occupational hazard of his client; yet what loan officer has comparable data on shoe stores or laundries or manufacturers of hosiery to cite at random from a list as long as trade and industry themselves. Loan loss can be materially decreased by scientific study of the problem along cooperative lines and the whole question is one that will never be answered satisfactorily except through the cooperative facilities of organized banking.

4. A sound investment policy is a thing of increasing importance to every banker. The price of safety in the purchase of securities is cooperation with other bankers. For every bank that is able to maintain its own research organization for gathering required investment information, there are scores of banks that must depend on outside sources which are not fully cognizant either of the requirements of a particular bank or the local credit situation. Group thinking—local, state-wide and national—must be devoted to this problem, the first step in the solution of which has been taken by the Bank Management Commission of the American Bankers Association, as described in this issue of the JOURNAL. Certainly, there must be other steps of a similar kind if banks are to avoid in the future the trials and disappointments of the last three years. Here again, therefore, cooperation among banks is the only alternative to rigid, unscientific control by governmental bureaucracy.

5. The dissemination of information of interest and value to banks is a function of the AMERICAN BANKERS ASSOCIATION JOURNAL and various commissions and special committees of the Association. This work would be impossible on its present scale without the cooperative effort of bankers in all parts of the country. The activities of the Protective Committee in combating bank criminals, the various studies and fact-finding achievements of the Bank Management Commission, the benefits accruing to banks through the work of the Economic Policy Commission and the Commerce and Marine Commission should be included in this category. Banks are constantly in need of new data of a type that can be obtained best through their own cooperative efforts.

6. The important questions of tax

(CONTINUED ON PAGE 38)

DRAWN BY WALTER EDWARD BLYTHE

**F. M. LAW**

**Second Vice-President, American Bankers Association, 1931-32, and incoming First Vice-President for 1932-33. Born at Bryan, Texas, he was educated at the A. and M. College of Texas and at the University of Texas. He entered banking as bookkeeper and assistant cashier, First National Bank, Bryan, Texas, 1897-1908; and has served successively as cashier, Commercial National Bank, Beaumont, Texas, 1908-10; cashier, First National Bank, Beaumont, 1910-15; and vice-president, First National Bank, Houston, 1915-30. Since 1930 he has been president of the First National Bank of Houston**

## Harry J. Haas

President, American Bankers Association, 1931-32. Mr. Haas was born at South Heberton, Pennsylvania and was educated at the University of Pennsylvania School of Accounts and Finance. First a salesman and then a newspaper correspondent, he began his banking career as a clerk in the First National Bank of Berwick, Pennsylvania, and served successively as teller in the Berwick National Bank; assistant treasurer, Berwick Savings and Trust Company; treasurer, Farmers and Mechanics Trust Company, West Chester, Pennsylvania; assistant cashier, Merchants National Bank, Philadelphia; and assistant cashier, First National Bank, Philadelphia. He is now vice-president and director of the First National Bank, Philadelphia. Mr. Haas was one of the incorporators of the Association of Reserve City Bankers. Clubs: Union League, Bank Officers, Penn Athletic, Merion Cricket, etc. He lives at Haverford, Pennsylvania

DRAWN BY WALTER EDWARD BLYTHE

DRAWN BY WALTER EDWARD BLYTHE

## Francis H. Sisson

First Vice-President, American Bankers Association, 1931-32, and in-coming President for 1932-33. Mr. Sisson was born at Galesburg, Illinois, and was educated at Knox College (A. B. degree, '92) and at Harvard University (A. B. degree, '93). He received an LL.D. degree from Knox College in 1921. He began as a newspaper reporter and editorial writer, 1893-98; then was editor of the Evening Mail, Galesburg, Illinois, 1898-1903. Moving to New York, he engaged in journalistic and advertising work, 1903-16; and served as assistant chairman of the Association of Railway Executives, 1916-18. These activities led him into banking and since 1917 he has been vice-president of the Guaranty Trust Company of New York. He is a member of the American Economics Association and the Academy of Political Science. Clubs: University, Bankers', Sleepy Hollow Country, etc. He lives at Park Hill, Yonkers, New York

President Haas, in a recent statement urging bankers to attend the Los Angeles Convention, said:

"Unbiased consideration grants that there are certain banking changes that the nation's natural financial evolution calls for. Bankers are earnestly in favor of constructive actions for the public welfare, of which their own is a part. Equally should they oppose extreme or unsound changes and interferences with banking and should stand organized to make their opposition effective. In a truly representative democracy, it is the duty as well as the right of all lines of commercial, industrial, financial and social interests to exercise the function of organized representation in respect to public actions affecting them. This is particularly so of banking, custodian as it is of the massed economic interests of millions of people, enterprises and institutions."

laws and other legislation require concerted public action, and banks should take the lead. Without constant cooperation and organized alertness to new developments in Washington, various state capitals and also in municipal affairs the business of banking would soon find itself in a position where it would be difficult to function properly. If the recent past is any sound criterion, we are in the early stages of centralization on a scale hitherto unprecedented in all history. If the private enterprise which has built America and the incentive to individual effort which we prize are to be maintained, thoughtful care must be given to all legislative programs. Their possible effects must be analyzed and reported upon. This is above all a field for vigilant cooperative action.

7. There are countless operating problems whose solution rests on cooperative effort—standardization of accounting methods; uniformity of charges; simplification of checks and other bank materials and supplies; the organization of credit bureaus and regional clearinghouses; and the development of better machinery for the interchange of ideas and information. There are scores of ways in which profits can be augmented and services to the public improved by the interchange of experiences, viewpoints and special studies.

Banking, more than any other business, is a cooperative enterprise. It brings together the surplus funds of a community for the purpose of assisting the development of industry and commerce. No bank can stand alone any more than it can depend on one depositor for its resources. Its success depends largely upon the use which it makes of the American Bankers Association and other cooperative machinery which has been developed during the last century.

A map accompanying this article shows the location of regional and city clearinghouses now in operation throughout the United States. This is merely one segment of the cooperation picture which starts with the American Bankers Association, its divisions, sections, commissions and committees and includes the extremely effective state associations, county organizations and special federations or groups formed for the purpose of meeting every sort of problem. Each holds its own meetings, participates in the benefits of other units and helps promote the harmony which is essential to the future of banking.

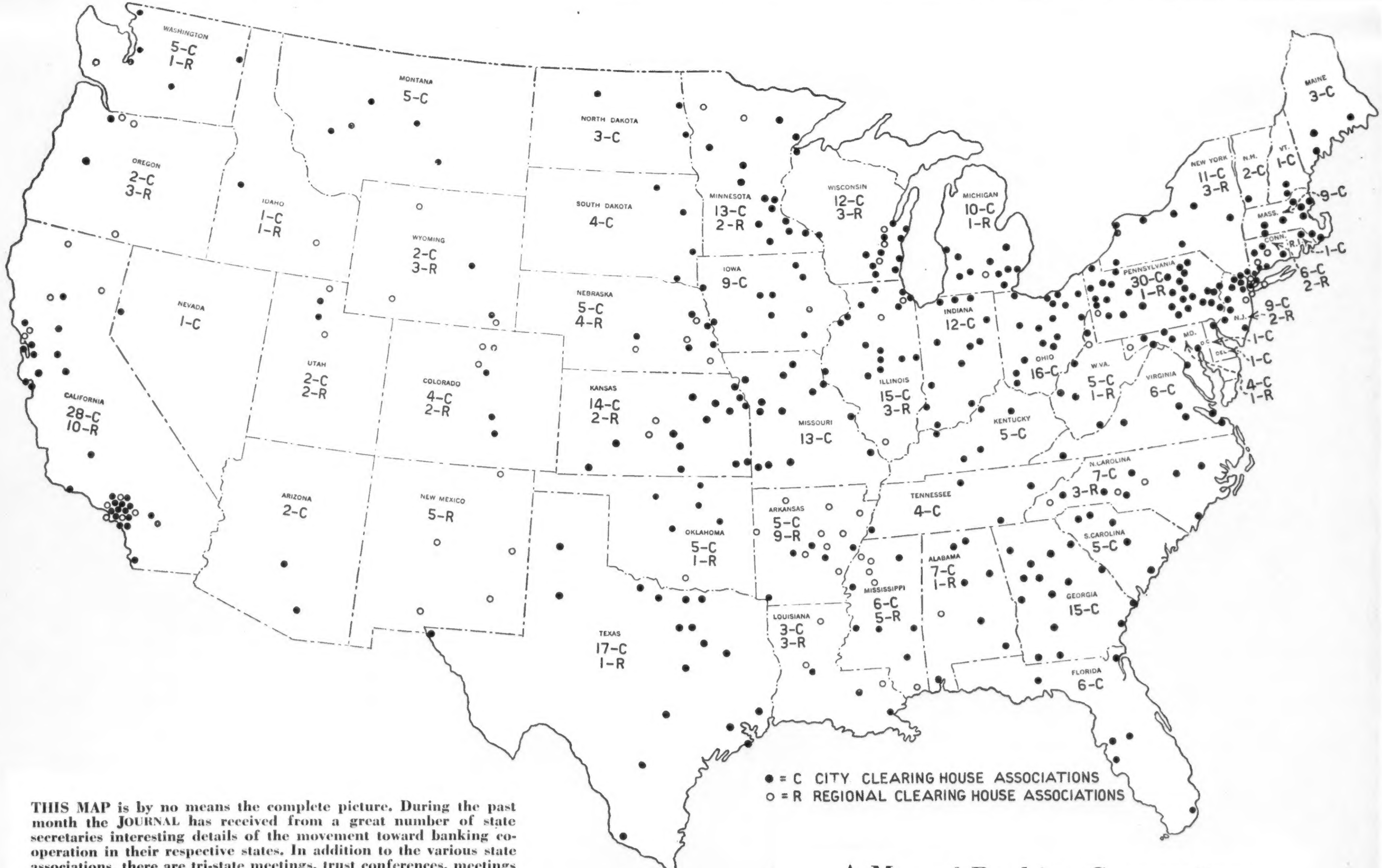
With the proper development of existing fact-finding and data-disseminating facilities, it should never be necessary for any bank to acquire experience by costly trial-and-error methods, while the perpetuation of errors and unsound thinking is rendered all but impossible.

Banking is today in possession of all the essential machinery for testing, checking, improving and eliminating. This machinery is modern and economical and increasingly efficient in direct proportion to the demands made upon it by the bankers for whose benefit it has been developed. Through it, experiences accumulated by one banking institution with reference to current problems are made available to other banks facing similar problems; the profit possibilities of new departments may be measured with accuracy, and sound operating procedure mapped out, costs kept in rigid control and maximum returns achieved from maximum community services.

Years of unselfish effort have gone into the upbuilding of existing cooperative machinery but every banker can testify to the generous returns which have followed in its train and there is no bank officer in any institution, great or small, who is not aware of its vast potentialities in the working out of today's major problems and the welding together of an even more powerful, progressive banking structure for the years of reconstructive effort just ahead.

**P. D. HOUSTON**

**Treasurer, American Bankers Association. He was born in Marshall County, Tennessee; was educated at the Haynes McLeon School at Lewisburg in that state; and started in banking in 1892 as a clerk in the Peoples Bank, Lewisburg. He has been with the American National Bank of Nashville, Tennessee, since 1918, and has been chairman of the board of that institution since 1928. Clubs: Hermitage, Belle Meade Country, Richland Golf, etc. Mr. Houston lives at Belle Meade Park, Nashville**




**THIS MAP** is by no means the complete picture. During the past month the JOURNAL has received from a great number of state secretaries interesting details of the movement toward banking co-operation in their respective states. In addition to the various state associations, there are tri-state meetings, trust conferences, meetings of savings banks, county associations and other groups organized for a variety of special purposes such as bank-farm discussions and the study of bank management problems

# A Map of Banking Cooperation

**The JOURNAL will publish additional cooperation maps in subsequent issues, representing a variety of organization details**

# THE AMERICAN BANKERS ASSOCIATION CONVENTION

## PROGRAM
## Tuesday, October 4

9:45 A.M.
Orchestral Concert and Song Leader

10:30 A.M.
Call to Order ...... President HARRY J. HAAS

Invocation

Address of the President

Report—Official Acts and Proceedings of Executive Council

"The Banker in Our Economic System" ...... HAROLD PAUL CUNNINGHAM
Winner
National Public Speaking Contest
American Institute of Banking

"The Political Foundations of National Prosperity" ...... WILLIAM BENNETT MUNRO
Professor of Government,
California Institute of Technology

Appointment of Resolutions Committee

Communications

Announcements

Adjournment

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## PROGRAM
## Wednesday, October 5

9:45 A.M.
Orchestral Concert and Song Leader

10:30 A.M.
Call to Order ...... President HARRY J. HAAS

Invocation

"The Relation of Taxation to the Public Welfare" ...... HON. M. S. CONNER
Governor of Mississippi
Jackson, Miss.

Report of Nominating Committee and

Election of Officers

Report of Resolutions Committee

Communications

Announcements

Adjournment

*MR. MILLS*

## PROGRAM
## TUESDAY NIGHT, OCTOBER 4

9:00 P.M.
Call to Order ...... President HARRY J. HAAS

Address ...... HONORABLE OGDEN L. MILLS
Secretary of the Treasury
of the United States

Adjournment

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## PROGRAM
## Thursday, October 6

9:45 A.M.
Orchestral Concert and Song Leader

10:30 A.M.
Call to Order ...... President HARRY J. HAAS

Invocation

"Over-taxation—A Business Viewpoint" ...... PAUL SHOUP
Vice Chairman
Southern Pacific Company

Unfinished Business
Communications
New Business
Installation of Officers
Announcements
Adjournment

THE AMERICAN BANKERS ASSOCIATION CONVENTION

# THE AMERICAN BANKERS ASSOCIATION CONVENTION

## TRUST DIVISION

### Monday, October 3

9:30 A.M.

Call to Order . . . President THOMAS C. HENNINGS

Address of the President

"Financing of Public Utilities" . . . W. C. MULLENDORE, Executive Vice President, Southern California Edison Company Ltd.

"Trusteeship: A Business" . . . H. D. PETTIBONE, President, Chicago Title and Trust Company, Chicago

Unfinished Business

New Business

Reports of Committees

Election and Installation of Officers

Adjournment

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## STATE BANK DIVISION

### Tuesday, October 4

2:00 P.M.

Call to Order . . . President FELIX M. McWHIRTER

Address of the President

Appointment of Committees

"State Banks and Their Important Field of Service" . . . L. A. ANDREW, Vice President, First Bank and Trust Co., Ottumwa, Iowa

"Fundamental Banking Policies and Principles" . . . H. N. STRONCK, Bank Management Consultant, Chicago

"A Code of Sound Bank Operating Practices" . . . A. G. KAHN, President, Union Trust Company, Little Rock, Arkansas

General Discussion

Unfinished Business

New Business

Reports of Committees

Election and Installation of Officers

Adjournment

## SAVINGS DIVISION

### Monday, October 3

2:00 P.M.

Call to Order . . . President JAY MORRISON

Invocation . . . BRUCE R. BAXTER, Dean of School of Religion, University of Southern California, Los Angeles

Appointment of Committees

Address of the President—"Savings and Reconstruction"

"Railroad Bonds—Recovery or Default" . . . HAROLD G. PARKER, Vice President, Standard Statistics Co., New York

"The Present Status of European Debt Payments" . . . TULLY C. KNOLES, President, College of the Pacific, Stockton

Forum Discussion

Unfinished Business

New Business

Reports of Committees

Election and Installation of Officers

Adjournment

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## NATIONAL BANK DIVISION

### Wednesday, October 5

2:00 P.M.

Call to Order . . . President W. WALTER WILSON

Address of the President

"What Have We Learned?" CARL ALLENDOERFER, Vice President, First National Bank, Kansas City, Missouri

"Bank Investments" . . . ANDREW PRICE, President, National Bank of Commerce, Seattle

Address . . . WILFRED W. FRY, President, N. W. AYER & SON, Philadelphia

Unfinished Business

New Business

Reports of Committees

Election and Installation of Officers

Adjournment

THE AMERICAN BANKERS ASSOCIATION CONVENTION

# THE DIVISION AND SECTION PRESIDENTS

## Who Have Been Serving the A. B. A. During 1931-1932

KEYSTONE

**Thomas C. Hennings, President, Trust Division; vice president, Mercantile-Commerce Bank & Trust Co., St. Louis**

CHAMPLAIN

**W. Walter Wilson, President, National Bank Division; president, First Milton National Bank of Milton, Pa.**

BACHRACH

**Felix M. McWhirter, President, State Bank Division, and president, Peoples State Bank, Indianapolis, Indiana**

GRADY

**Jay Morrison, President of the Savings Division, and vice president of the Washington Mutual Savings Bank of Seattle, Washington**

**Paul P. Brown, President of the State Secretaries Section, and secretary of the North Carolina Bankers Association, Raleigh, North Carolina**

MACEWAN

**Frank N. Hall, President of the American Institute of Banking, elected in June for 1932–33. He is controller of the Federal Reserve Bank, St. Louis**

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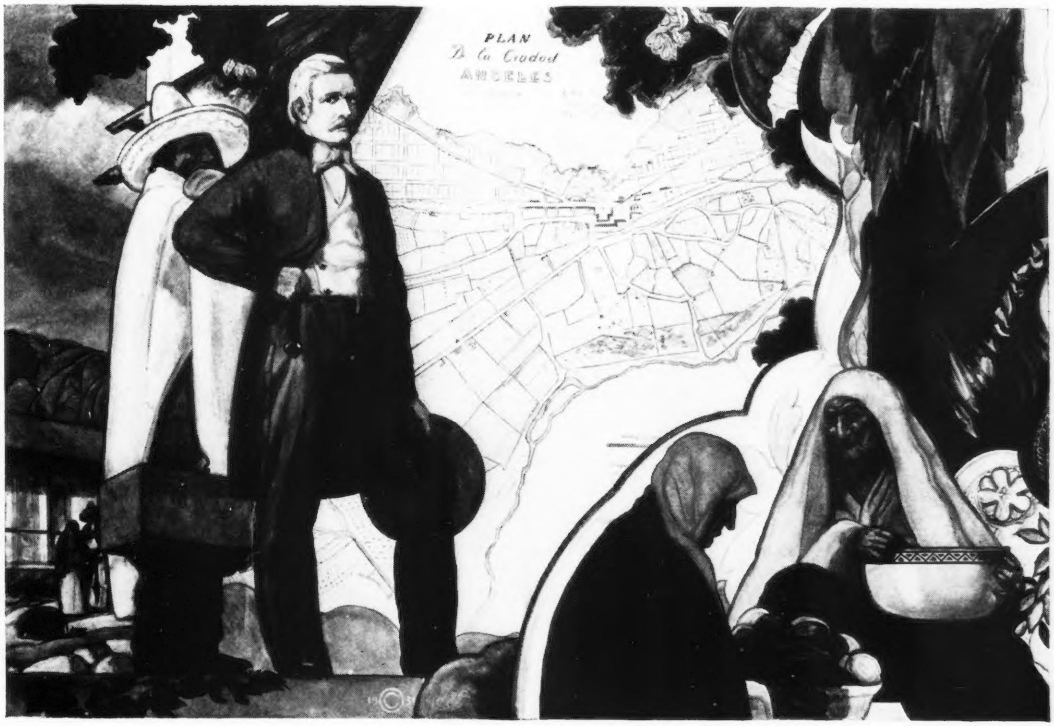



**One of a series of murals painted by Hugo Ballin for the Title Guarantee & Trust Company, Los Angeles**

# Los Angeles

**By HERBERT MANCHESTER**

LOS ANGELES, probably more than any other great city in America, has been made by its modern citizens. There was nothing about its original site to make it great. The plain on which it was located was 15 miles from the ocean. The stream that ran by it was not navigable and even dried up in summer. It was not at a falls, or a pass, or a gateway to vast territories.

Originally, Los Angeles was not at the center of wide-spreading natural industries. Grazing, which was introduced by the Spaniards, was later killed off by summer droughts; and the gold rush was farther north. The town was not a focus to which railroads were topographically compelled to converge, and the early ones threatened to pass it by entirely.

Its site was no more propitious than any other spot of tableland in southern California and there appears no natural reason why Los Angeles more than many another little village in that section should have become a great metropolis.

Indeed, Los Angeles did not begin to grow for a century after its founding, and it is the most youthful of our great cities. It has 120 times the population it had half a century ago, and 15 times its population in 1900.

BOYÉ

**Mr. A. M. Chaffey is president of the Los Angeles Clearing House Association, and chairman of the board, California Bank, Los Angeles. He is also General Chairman of the American Bankers Association Convention of 1932**

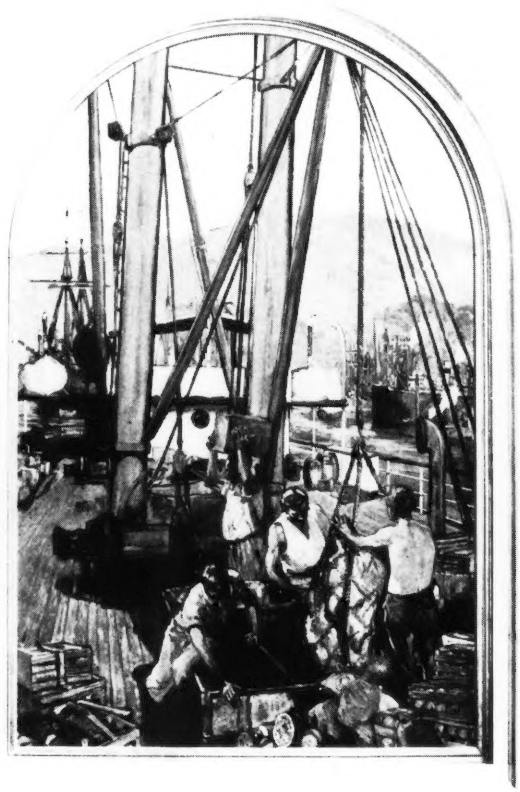
It was only at the end of the last century that the production of petroleum in the Los Angeles district became important, but it is now 50 times greater, and more than the production in any other state.

It was only about 20 years ago that the motion picture makers moved to Los Angeles, but the films made there outnumber all others made throughout the world.

It was in 1913 that Los Angeles completed the world's longest aqueduct for water and hydro-electric power, but it has become the metropolis of an irrigated and electric-powered empire.

It was only in 1914 that the deep-water harbor was completed at San Pedro, but today Los Angeles ranks second to New York in exports.

For many decades after it was founded in 1781 by Felipe de Neve, the Spanish governor, Los Angeles dozed through a pastoral existence. It was affected less when Mexico became independent of Spain in 1822 than when the great Mission of San Gabriel, with its 1,500,000 acres and 1,500 Indian novitiates,



**Two murals painted by Alson Clark for the First National Bank of Pasadena—oil and shipping, two of the industries which have contributed greatly to the welfare of southern California**

was secularized in 1833 and broken into smaller ranches.

At the beginning of the Mexican War in 1846 the Americans occupied the town, but were besieged, and Juan Flaco rode 600 miles in five days to San Francisco to ask aid from Commodore R. F. Stockton. Before aid came, however, the Americans were compelled to evacuate, and after they were repulsed in a second advance it required the combined efforts of Commodore Stockton, General S. W. Kearney, and Colonel John C. Fremont to retake the town. But the change of nationality from Mexican to American in 1847 made little difference in the life of villagers or rancheros. The first gold rush was much farther north and scarcely influenced the town, except to create a demand for grapes.

All this time Los Angeles had been without a bank, but in 1859 gold mining was started in the San Gabriel Canon, though the production was only about $12,000 a month. The Los Angeles merchants who had strong boxes let the miners and rancheros deposit their dust and money, and the Wells-Fargo Express Company advertised that it had scales to weigh gold and would make exchanges of foreign coins. This led directly to organization of the first bank.

I. W. Hellman, who had been storing gold dust in his safe, in 1865 started a bank in a corner of his store because a drunken miner claimed someone had taken dust from his bag. Instead of storing the gold dust, Hellman bought it, credited the amount, and gave out checkbooks. He continued to be a leader in banking affairs for over 50 years.

In 1868 J. G. Downey, former governor of California, opened the banking house of James A. Hayward and Company, and later continued it himself.

These were both private banks, but in 1871—90 years after the founding of Los Angeles, and when it had reached a population of 6,000—Downey and Hellman combined their banks and secured a charter from the state for the Farmers and Merchants Bank of Los Angeles. This was opened with J. G. Downey as president and I. W. Hellman as cashier, and is still in operation as one of the larger national banks of the city. J. A. Graves is the present chairman of the board, and V. H. Rossetti is president.

Los Angeles had already been forced to realize that it was an inland town too far from the ocean, and that its freight wagons and stages to the Pacific at San Pedro were too slow and expensive. So it reached out to make connections with the sea. Los Angeles County issued bonds—that were mostly financed by the banks—and in 1869 built a railroad to San Pedro, which was the first railroad out of the town.

A few years later, after strenuous argument, the county convinced the Southern Pacific officials that they should make connections with Los Angeles, but it then had to back up its arguments with a bonus equal to 5 per cent of the assessed valuation of the county. The bonus was financed largely by the bank, but it required a tunnel through the San Fernando Mountains and four years' time before the connection was finally completed at Lang on September 6, 1876. This put Los Angeles on the railroad map and was an absolutely essential step in the development of the town.

In the crisis of the 70's when the temporary closing of the Bank of California in San Francisco in 1875 precipitated runs in Los Angeles, J. G. Downey of the Farmers and Merchants Bank agreed with Temple and Workman, one of the private banking firms in Los Angeles, to close both their institutions.


**Another of the Ballin series of murals belonging to the Title Guarantee & Trust Company, Los Angeles**

But I. W. Hellman, who had reached New York on his return from Europe, arranged by telegraph for all checks on the Farmers and Merchants Bank to be paid, and for deposits to be received at the offices of Hellman, Haas and Company in Los Angeles. The deposits exceeded the withdrawals.

In the meantime, some of the bankers connected with the Commercial Bank of San Diego, which city had a good natural harbor and considered itself the port of southern California, looked about for inland connections, and in September, 1875, established the Commercial Bank of Los Angeles with N. S. Patrick as its first president. He was succeeded by J. E. Hollenbeck, under whom in 1880 the bank became the First National Bank of Los Angeles, which still exists in the Security-First National Bank.

The year 1877 was a turning point in the history of Los Angeles. Another fatal drought, as in 1863, struck down the cattle and sheep industries, and citizens and bankers had to look around for other possible resources.

The first industry developed was orange growing. This was accomplished by irrigation. Navel oranges had been introduced with two trees from Brazil in 1873 and had proved more popular than the other varieties. So, navel orange orchards were planted wherever water could be procured. The first carload of oranges was sent East in 1877, and by 1885 orange growing was the chief industry of the district. The banks found themselves financing irrigation, the planting of orange trees, and the shipment of the fruit. Then a "cottony scale" came in from Australia, destroying thousands of the trees and threatening to ruin this business. However, Albert Koebele was sent to the Antipodes to find its natural enemy and he brought back the Australian lady bug, which devoured the cottony scale and saved the industry.

The second resource discovered for the city was the climate. Los Angeles was mild in winter, and though dry, was not hot in summer. So its virtues were advertised far and wide. Helen Hunt Jackson wrote of its glories in the magazines. The first Raymond-Whitcomb grand excursion came out in 1882, and the rate war between the then new Santa Fe Railroad and the Southern Pacific in 1886 brought thousands.

This at once gave rise to a real estate boom. In 1887 prices jumped to three times what they had been. The banks received huge increases in deposits and had to do a great deal of real estate financing; but they were conservative and, when the boom ended, they were not badly affected except in deposits. Even with the collapse of the boom, however, the town grew from 11,000 in 1880, to 50,000 in 1890.

As a manifestation of the growth of the city, the Security Savings Bank and Trust Company was founded in 1889 with F. N. Meyers as president and J. F. Sartori as cashier. Among the stockholders were I. W. and H. W. Hellman, O. W. Childs, and J. A. Graves. The new institution emphasized saving money as well as making it, which was an unusual idea in California in those days.

The real estate activities brought in the Title, Insurance and Trust Company organized by O. F. Brandt and O. P. Clark in December, 1893, with C. G. Harrison as president, and the Title Guarantee and Trust Company organized by E. W. Sargent in 1895, with J. D. Pope as president. At the present time William H. Allen, Jr., is chairman and president of the Title Insurance and Trust Company, and A. F. Morlan is president of the Title Guarantee and Trust Company.

Another bank that took part in the activities of that era was the Citizens Bank of Los Angeles, which was founded in 1890 as a state institution with a capital of $100,000 and with T. S. C. Lowe as president. In 1901 it became the Citizens National Bank, which is still in operation. Herbert D. Ivey now heads this well known institution.

The next important resource to be developed was petroleum. In 1892, E. L. Doheny dug a 160-foot producing well within the city limits and started the oil boom of the 90's. Production increased from 3,000,000 barrels in the 80's to 11,000,000 barrels in the next decade.

This remarkable increase in the output of oil emphasized the need for shipping facilities, and during the 90's Los

MURILLO

**Herbert D. Ivey is president of the Citizens National Trust & Savings Bank, Los Angeles. Mr. Ivey is also vice-chairman of the Clearinghouse Committee on Administration and a member of the Convention Reception Committee**

Angeles waged a hard fought battle to secure an appropriation from Congress for a deep water harbor at San Pedro. Some of the senators thought that the city wanted them to build a harbor out in the ocean, but after a fiery debate, $2,500,000 was voted for breakwaters. Although the work was started in 1899, it was not completed for over a decade.

Several new banks were founded between 1900 and the World War years, and these have helped to carry on the amazing development of the city during the more recent post-war period.

A. M. Chaffey from Australia, who had organized about 1903 the American Savings Bank, the California Savings and Commercial Bank, and other institutions, in 1911 absorbed them into the Hibernian Savings Bank, and in 1920 merged this with the Home Savings Bank which had been organized in 1904. The consolidation was named the California Bank, which is still in operation with Mr. Chaffey as chairman of the board and James R. Page as president.

In 1914 Kaspare Cohn, nephew of the pioneer, Harris Newmark, founded the Commercial and Savings Bank, which specialized in commercial banking and which exists today as the Union Bank and Trust Company, with Ben R. Meyer as president.

Among the later Los Angeles banks are the California Trust Company, founded in 1921, of which G. A. Hancock is chairman of the board and A. E. Huntington is president; and the Seaboard National Bank, which opened in 1924 with George L. Browning as president.

In 1923 the Bank of America was founded with Orra E. Monnette as president, and began to develop branch banking. In 1926 it had eight branches in Los Angeles and 13 in other cities. A year later it became a part of the Bank of Italy, founded in San Francisco by A. P. Giannini. This combined institution is one of the greatest exponents of branch banking in the country, and at present, as the Bank of America National Trust and Savings Association, with A. P. Giannini as chairman of the executive committee, Will F. Morrish as president and Orra E. Monnette as vice-president, it has 66 branches and offices in Los Angeles and 410 in the state.

DOYÉ

**W. R. Morehouse, vice-president of the Security-First National Bank of Los Angeles, who is General Manager of Local Arrangements for the Convention. Mr. Morehouse is a former President of the Savings Division**

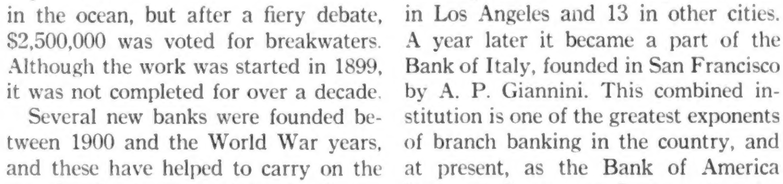
In 1929 the Security Trust and Savings Bank combined with the Los Angeles-First National Trust and Savings Bank as the Security-First National Bank, with H. M. Robinson as chairman of the board, J. F. Sartori as president, and M. S. Hellman as vice-chairman of the board. It operates five offices and 56 branches in Los Angeles and 66 other branches in southern California.

Smaller institutions include the Bank of Commerce of which M. H. Schumacher is president; the Broadway State Bank of which W. D. Cochran is chairman and L. B. Howard is president; the German American Savings Bank of which C. L. Schloessmann is president; the First Industrial Loan Company, formerly the Los Angeles Morris Plan Company of which W. H. Workman is president and general manager; the Metropolitan Trust Company of which G. A. Schaefer is president; and the Wilshire National Bank of which L. E. Harbach is chairman and James N. Casady is president. There are also several branches of foreign banks located in the city, and numerous investment firms, both local and branch offices.

Expanding real estate interests gave rise to the Mortgage Guarantee Company, organized in 1913.

The fruit and nut crops alone have increased in value to $45,000,000 a year in Los Angeles County, and to $200,000,000 in southern California.

The production of petroleum has jumped to about 240,000,000 barrels



**Part of the bathing beach at Venice, California**

UNDERWOOD

annually, worth four times the yearly production of gold during the gold fever.

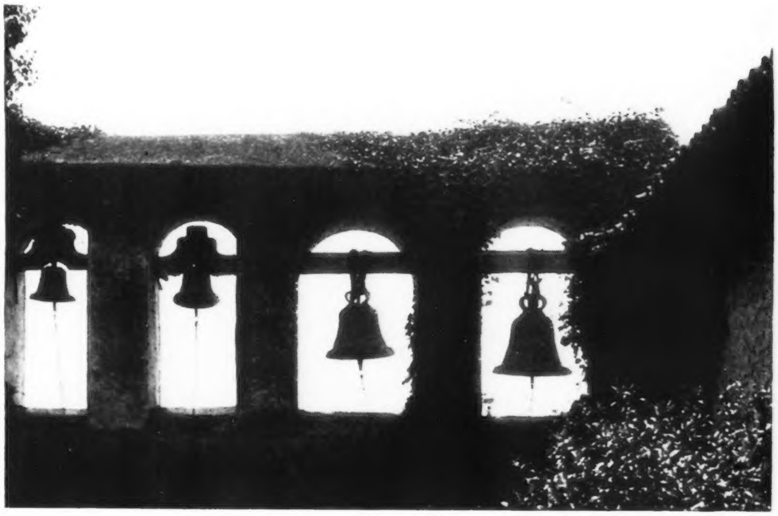
Tourists have increased to as high as 1,500,000 a year, and have given rise to 1,000 hotels.

The climate too was directly responsible for another leading industry. The advertised fact that there are only about ten days a year without sunshine, attracted motion picture makers in the early days when pictures were taken by sunlight. D. W. Griffith came with the Biograph in 1910 and three years later produced "The Birth of a Nation," while Cecil De Mille directed "The Squaw Man." This industry, with its tremendous pre-sale expenditures, has always presented unique problems in financing. To reduce art to crude figures, it casts about $125,000,000 a year upon the waters, and is returned about $175,000,000 after many days.

The deep-water harbor at San Pedro, annexed to Los Angeles, supplied 40 miles of waterfront when the project was completed in 1914 in time for the opening of the Panama Canal. Due to the canal route, new shipping facilities, and the increase in oil production, the commerce has risen from 2,000,000 tons in 1914 to 28,000,000 tons, and the city is above all but New York in exports. This has called for constantly increasing financing, and is perhaps the future chief interest of the city.

In 1908 Los Angeles County voted bonds to start a 280-mile aqueduct, the longest in the world, to the Owens River in the Sierra Nevadas. This cost $25,000,000, besides $56,000,000 more for ten hydro-electric plants; and it required speedy financing by the county, the citizens and the banks to keep pace with the construction. The aqueduct, which was completed under William Mulholland's direction in 1913, supplies 250,000,000 gallons of water a day, and 200,000 horse power of electric current. This supply of water and power will be greatly increased by Boulder Dam on the Colorado River. Los Angeles has voted two bond issues for this work and the United States Government is eventually to be reimbursed for the cost.

As the population climbed from 100,000 in 1900 to 1,300,000 in 1930, the demand for manufactures increased. The development of petroleum and hydro-electricity supplied the power needed and made factories practical. Manufactures increased from $100,000,000 in 1914, to $1,300,000,000, and now seem destined to furnish most of the goods formerly brought in from the East and Middle West.

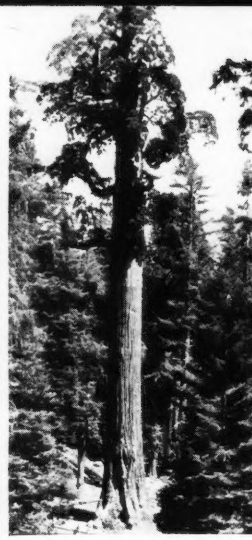


GALLOWAY

**Above: Bells at San Juan Capistrano Mission**

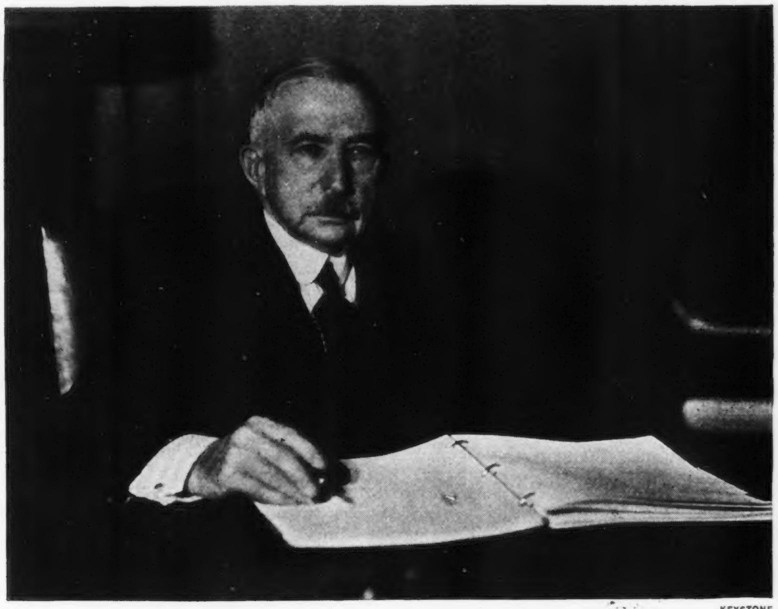
**Below: An avenue of palms at South Park, Los Angeles**

UNDERWOOD



# CALIFORNIA

**The Golden Gate, San Francisco and its Market Street, other busy cities; golf and the sports; Yosemite and the redwoods; historic Carmel Mission; shipping; petroleum; mountains and their scenic splendor; flowers and the desert**



KEYSTONE

J. F. SARTORI, President and Chairman, Executive Committee, Security-First National Bank of Los Angeles

# At That Time Our Population Was About 300,000

SOME of you who are here as delegates to the Annual Convention of the American Bankers Association have attended all of the four annual meetings held in this city. The first one was in 1910 when Los Angeles was just beginning to be recognized as a city of metropolitan proportions. At that time our population was about 300,000. The breakwater at the harbor had just been completed. The Los Angeles Aqueduct, which was to bring water to the city from the Owens River 250 miles away, was under construction. The site of the Biltmore Hotel facing Pershing Square was occupied by a newsboys' playground. Our first Air Meet was held that year and a record for sustained flight was established when a man flew an airplane from Dominguez to Santa Anita Ranch and back—a distance of 45 miles.

This year as you visit Los Angeles as a delegate to the Fifty-eighth Annual Convention and look back over the span of years since first you visited us, undoubtedly you will find interest in the record of progress and development. The great aqueduct, the building of which seemed such a stupendous undertaking in 1910, is now to be augmented by a yet greater one bringing water from the Colorado River far to the east. Petroleum production, which has had such a great development since your first visit here, has become the chief primary income source of the state.

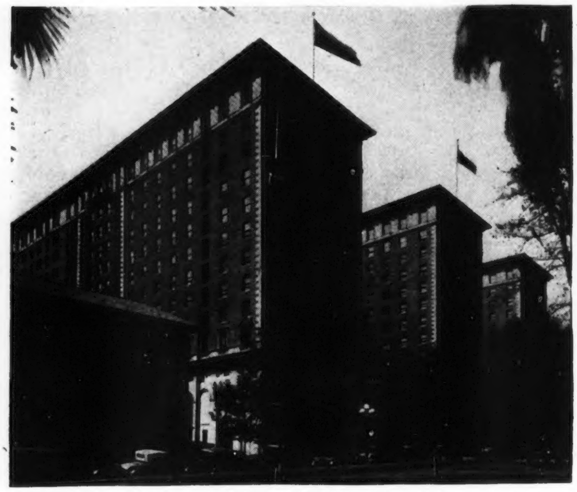
Manufacturing, at which a beginning was just being made in 1910, has passed the billion mark in value of products. Our harbor has increased its tonnage many-fold and has passed ten other cities of the country in value of exports. Agriculture has shown a 32 per cent increase between 1920 and 1930. The meat packing industry in this territory, practically non-existent in 1910, is a development of the past ten years. The census records reveal that the population of Los Angeles County increased from 500,000 in 1910 to 2,208,000 in 1930.

Today the city presents a picture to the visitor entirely different from that which greeted delegates to the first Convention in 1910. Growth has been recorded during each of the periods that have elapsed between the four conventions held here. The progress which has occurred since your last meeting here in 1926, however, has been particularly marked. Since 1926, the skyline of the city has been enriched by the construction of such buildings as the new state office building at the civic center and a large number of splendid business office buildings. Our industrial area includes new factories of many varieties, including tire factories, cracker factories, soap factories and many others.

You will note many changes in the residential area since you toured it by automobile on the first day of the 1926 convention. There are many new homes in the San Marino District, to the east of Pasadena. On Wilshire and to the west, builders are pushing to the ocean. Santa Monica is being changed from a beach town to a city of homes. Westwood Village, west of Beverly Hills, is an entirely new creation. As late as 1929 it was a grain field. Today it is a city of busy business enterprises serving the students of the nearby University of California at Los Angeles and the adjacent residential area.

The program of street widening and extension still continues. Spring Street is now cut through to the north. Broadway has been extended many blocks to the south, cutting through an old residential district to make a main traffic artery. Colorado Street, the main thoroughfare of Pasadena, has been widened and lined with palms.

The Coliseum, where many of you saw the football game in 1926, has been renamed the Olympic Stadium in honor of the Olympic Games and has been enlarged to hold over 105,000 people. It was filled to capacity on several occasions during the Olympic Games. This great athletic festival proved a financial as well as athletic success, a unique experience for events of the kind.



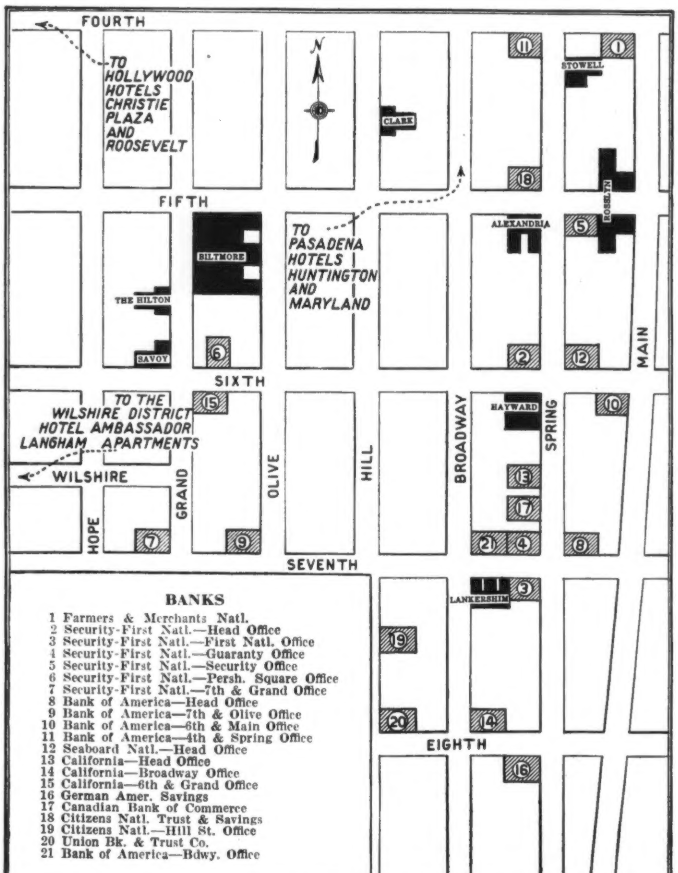
Los Angeles Biltmore Hotel, Convention Headquarters

On your last visit many of you spent a day at Catalina Island and saw something of the preparations made for the entertainment of visitors. The tourist trade continues to be our third largest source of income. It is estimated that the Olympic Games alone brought over 350,000 visitors, who spent more than $44,-000,000. Some years ago our tourist influx was entirely seasonal in character, being confined to a few winter months. Now visitors come all the year around and more in the summer than in the winter. Even during the depressed period of 1931, tourist expenditures in southern California averaged about three-quarters of a million dollars a day.

On your last visit, you saw something of the Los Angeles-Long Beach harbor. Our investment there has been greatly increased since 1926. Today it is the second harbor in America in value of exports, being exceeded only by New York. More than 150 different steamship companies make it a port of call. Foreign exports through the port in 1931 were $109,000,000.

One of the events of the 1926 convention was a visit to the Hollywood motion picture studios. Many changes have taken place in picture production since that time. The new sound stages are tremendously complex and costly affairs. The industry is one of our leading enterprises and a great economic asset. It has had to meet tremendous problems during the period of transition through which it has been passing, but the desire for entertainment is universal and there is no doubt that these problems will be successfully met.

Motion pictures are playing an important part in the development of one of our newer industries, that of wearing apparel. It takes many months to complete a film, and the producers must, in a measure, forecast the styles of women's clothes. Because of this necessity local designers have developed courage, initiative and ingenuity to the point where Los Angeles is becoming a style center of consequence. The apparel industry has increased five-fold since 1920. The fact that ocean, beaches and mountains are close at hand gives an advantage in the production of sports clothes, for which a substantial market is developing in other parts of the world.



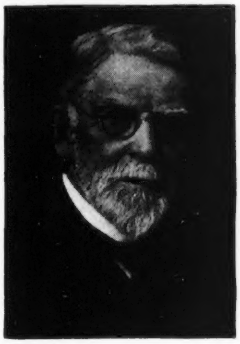

A map of the business district of Los Angeles

In facing the problems that have engaged the attention of the banking world during the depression, Los Angeles and southern California have had some advantage in the fact that this is a comparatively new country and there has not been time for the development of some of the industrial and financial ills that have caused difficulty in older sections. We have been favored by a steady influx of visitors, some of whom remain to make permanent homes here. The entire Pacific Coast shares the benefits of increasing population, much of it in the form of emigration from the East. According to the census, population of the three Pacific Coast states increased from 5,566,000 in 1920 to 8,194,000 in 1930. A large share of this increase went to Los Angeles County.

There are many indications that we are destined to continue to enjoy a large industrial development. Oil, our largest industry, has a great future. New petroleum products are appearing constantly. Natural gas is now piped many miles for domestic and industrial fuel. The new product "dry ice" is a by-product, like helium, from gas wells. Other new products are being developed.

Progress in the field of refrigeration is opening markets heretofore closed to local producers of agricultural products. Fresh fruits and vegetables kept at low temperatures are being shipped a thousand miles or more to reach new consumers.

# A FEW OF THE BANKERS WHO HELPED BUILD LOS ANGELES



**JOHN MACKAY ELLIOTT**

FIFTY-FIVE years of active banking service in southern California was the record of John Mackay Elliott, who for many years sustained with marked dignity and honor the title of "Dean of Southern California Bankers."

Born in the Old South he came to California over the first trans-continental railroad soon after its completion.

From keeping accounts for a lumber yard, he progressed into the position of secretary of Los Angeles' third banking institution, the Los Angeles County Bank, when it was organized in 1874. In the following year a fourth banking house known as the Commercial Bank came into existence, and six years later Elliott entered its ranks, to work thirteen hours a day as an "expert accountant." It was the beginning of a life-long association during which he served the institution, today the First National Office of Security-First National Bank, for twenty-five years as president, and during twelve more as chairman of the board. He was still active in its service at his death in 1929, at the age of eighty-five.

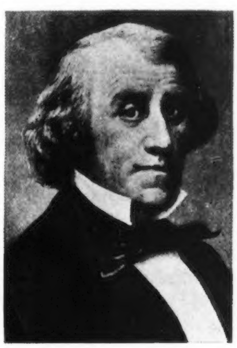
**JOHN TEMPLE**

BY 1850 there may have been a few safes in the little "Queen City of the Cow Counties," as Los Angeles was then known, but for the most part people hoarded their money in deep, narrow buckskin bags. If money was to be sent away, John Temple, having reserves of cash to his credit with butchers and bankers in San Francisco as the result of cattle dealings there, would accommodate his friends by issuing drafts against his balances in that city. If these were exhausted the remitter would send the coin by express . . . paper money not having made an appearance in Los Angeles by that time.

**ISAIAS W. HELLMAN**

AMONG California's most widely admired bankers of the elder generation was Isaias W. Hellman, Bavarian immigrant boy of 1860, who founded one of the most substantial banking institutions of Los Angeles, and died in San Francisco in 1920 at the head of another which owed its prestige to his genius. At seventeen, Hellman arrived in Los Angeles alone and poor and able to speak but a little English. He worked in a clothing store, and with the first fifty dollars he saved, founded his fortune with a purchase of Los Angeles real estate.

First connected with the firm of Hellman, Temple & Company, senior of the two or three private firms in which Los Angeles banking centered up to 1871, in that year Hellman withdrew and organized the Farmers and Merchants Bank. Today it is still operating as the Farmers & Merchants National Bank, with its building at Fourth and Main Streets occupying the site of Hellman's old home, where forty years ago the Victorian house stood far back from the quiet street behind neatly trimmed shrubs and a picket fence.



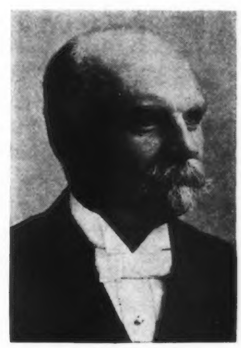
**DON ABEL STEARNS**

BOTH banker and merchant, Don Abel Stearns is to be remembered as the sender of the first California gold ever received by a United States Mint. This was seven years before the famed Gold Rush of '49, when in 1842 a California vaquero discovered gold in the San Fernando mountains some thirty-five miles from Los Angeles, and brought the grains into Stearns' store. By Stearns this first California gold was consigned to the Mint at Philadelphia in charge of another equally famous Yankee trader, Alfred Robinson. It went via the long voyage around the Horn on a wind-jammer.

**JACKSON A. GRAVES**

STRIKING personality among Los Angeles financial leaders of half a century is Jackson A. Graves, chairman of the board of the Farmers & Merchants National Bank. Long familiarity with the financial structure of Los Angeles preceded his entrance into banking as vice-president of the Farmers and Merchants Bank, in 1896.

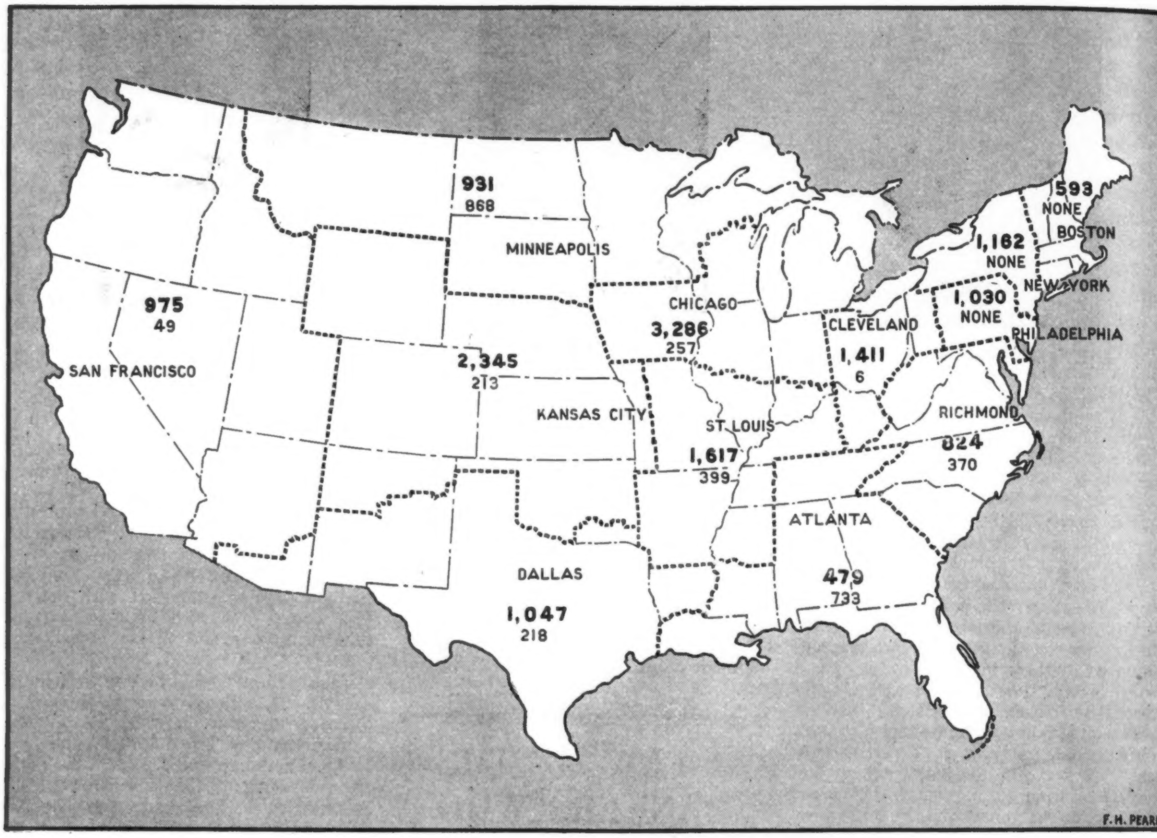
Succeeding the distinguished I. W. Hellman as president of the Farmers & Merchants National Bank on the latter's death in 1920, Mr. Graves occupied that position continuously until last year when he became chairman of the board.



**T. S. C. LOWE**

THE first president of the Citizens Bank, founded in 1890, was Thaddeus S. C. Lowe, man of extraordinary experience and attainments. In Civil War days he won national prominence as a pioneer military balloon observer, and was in charge of the balloon corps with the Army of the Potomac.

With his own invention he accomplished the first refrigeration on a steamship. Coming to Pasadena in 1888 he crowned his fame with conceiving and building the famed electric railroad from Pasadena to the summit of the mountain named in his honor.




**Banks in the par collection system, shown in heavy type, include 15,700 institutions—7,031 Reserve members and 8,669 non-members. Those not in the par collection system, shown in light type, total 3,113. Although grouped here by Reserve districts, in a few cases the actual collection areas differ slightly**

# Par Collections

## Their New Status as a Result of Reduced Bank Earnings

By
**GEORGE E. ANDERSON**

**Evidence of reviving interest in this question prompted Mr. Anderson to examine it anew in the light of conditions as of September, 1932**

PERHAPS a dozen times in the course of the various hearings on changes in the banking laws before Congressional committees in the past two years there has been discussion of the effect of the par collection system upon the small country bank. Abundant sympathy for the country banker in this connection has been expressed and the unfortunate effects of the system upon the small bank's earnings has been bemoaned, but there have been no changes in the law or in Federal Reserve regulations on the subject; nor for that matter, are there likely to be any changes unless the country banker himself does something about it.

Reasons therefor are not far to seek. The public is benefited by the par system. Most large banks, especially those in Reserve cities, are benefited by it. Whatever burden there is in it rests upon the small country bank. So long as the business of the small country bank was profitable the burden could be borne. But now that country banking on the whole is not so prosperous the country banker is commencing to reexamine this item of expense.

There is considerable significance in the fact that, while the Federal Reserve maintains and urges the advantage of the par system for the banking of the country as a whole, it no longer presses the system upon banks with the persistence and urgency which aroused so much feeling of resentment 15 years or so ago. There is some significance, also, in the fact that membership in the par system shows a slight but steady decrease in the past two years.

No doubt the par system is of immense advantage to the public for whom it saves millions of dollars each year and prevents what, one must admit, were serious abuses under the old system. There is no question also that it is of advantage to most of the larger banks, for while many of them lose earnings in being deprived of the privilege of charging for exchange, they also avoid losses on the same account. As between the large city bank and the neighboring country bank, however, the advantages are disproportionate. Depositors in country banks are remitting constantly to the large cities for purchases made and services rendered. Their checks are collected promptly through the city banks which are in direct touch with the Reserve banks,

often in the same cities. There is no loss except for float which usually is charged the city depositor either directly or through some service charge arrangement. On the other hand the country bank is compelled to remit constantly and to do so it must furnish exchange acceptable to the Federal Reserve and must maintain sufficient metropolitan balances for the purpose. For the service, however, it can make no charge.

Now it is just this inability to charge for service actually rendered which causes the country banker to object, especially in these days. Admitting the service of the par system to the public he is unable to see why it should be rendered for nothing. Under the old system the city bank, in theory at least, charged its depositor for the collection of an out-of-town check. It was a distinct service, clearly rendered, for which a charge was made of from one fourth to one tenth per cent with a minimum of perhaps 15 cents for each check. The check was then passed on to the paying bank in what was known as a cash item letter. The paying bank remitted the sum called for, less a deduction or discount of from one eighth to one tenth per cent as a remittance charge. The collecting bank thus charged its customer, but in turn was charged by the paying bank. Presumably both made a profit on the service rendered.

### CHARGE LEGALLY POSSIBLE

A CONSIDERABLE proportion of the out-of-town checks thus received were presented by the paying bank's metropolitan correspondent. Usually there was an agreement between the paying bank and the metropolitan correspondent that, so long as the former maintained a certain balance with the latter, its checks would be cleared at par. This arrangement facilitated the use of out-of-town checks and built up larger profits by increased business. One large Philadelphia bank made a specialty of this business and built up a large volume to the profit of all concerned.

Under the par collection system where collections must be made through the Federal Reserve banks, the cash item letter deductions are done away with. Under the law the Federal Reserve banks accept checks for deposit and collection at par, but on the other hand they must collect them at par. There is nothing on the face of the law which prevents bank members of the System from making a charge for collection; indeed this power is expressly reserved to them in the law. The joker is that

**The good faith of the Federal Reserve is attested by the fact that it costs the Reserve banks about $10,000,000 a year to maintain par collections. It clears annually more than 900,000,000 checks without cost to the public**

banks cannot make a charge against the Federal Reserve bank. Naturally these checks come to the paying bank through the Reserve, and profits by deductions or discounts by the paying banks disappear.

It requires little calculation to understand what the system of deductions on cash item letters meant to most country banks. In the average medium sized country bank, when trade relations with the surrounding districts and neighboring cities were active, the charges and deductions ranging from 15 cents to as high as $10 or $12 on large checks often amounted in the aggregate to enough to pay an annual dividend. It was normal expectancy then that this profit would pay for the clerical help in the institution, but now the profit has been wiped out by the par collection system and in only too many cases dividends have been wiped out with it.

### THE COST OF FREE SERVICE

SINCE under the par collection system out-of-town checks are payable at par, there is no longer the necessity for the collecting bank to charge its customer for handling the check, with the result that confusion has developed in banking practice. The argument in favor of such a charge is that in spite of the par collection system the bank is put to expense and trouble in making the collection—in short, it renders a service for which it should be paid. There is no question that this is a sound argument. Banks the world over make such a charge. Many banks in this country still make it, although most of them hide it under a general service charge. The argument against it is that the customer doesn't like it, and naturally he doesn't like to pay for something which he has been getting for nothing. But where the charge has been made continuously and consistently it is taken as a matter of course, just as it is universally in Canada, Great Britain, France and other countries.

Bankers in some parts of the country, notably in the south and west, habitually make these over-the-counter charges; in some states there have been concerted movements to establish a uniform system of charges and in some states bankers for protection have secured compulsory legislation. Clearing-houses in many localities establish a uniform charge for their members, but the practice is not general. Most banks are willing to go so far as to charge for float for the use of uncollected funds pending collection; comparatively few nowadays are willing to go further and charge for the actual service rendered. But why not? Handling out-of-town checks without charge is in fact another of those free services to the public which banks have been handing out with lavish hand for nearly a generation.

### THE RESERVE'S VIEWPOINT

THE position of the Federal Reserve System in the matter is clear and, from its standpoint, is easily understood. The par collection system was established primarily to facilitate trade in a broad way, and there is no question that the circulation of bank checks at par does accomplish this object. The fact that bank checks can circulate freely at par is a tremendous incentive to the public to use them not only in facilitating trade between cities but also to curtail the use of cash. By the general popular use of checks the United States is enabled to do an enormous amount of business on comparatively little money, reducing the use of gold and the amount of collateral that must be deposited against currency issues. As compared with its business volume and turnover, the per capita circulation of the United States is far less than that of any other great trading nation. This is the result of the general and popular use of bank checks.

Under the old system also there were abuses. The charges for remitting on cash item (CONTINUED ON PAGE 80)

# Two Country Banks in Iowa and Virginia

## Showing How the Requirements for Liquidity Depend on Local Factors

By
FRED L. GARLOCK

**Mr. Garlock is senior agricultural economist of the Bureau of Agricultural Economics of the U. S. Department of Agriculture. The comparative charts reproduced with his article were prepared by the Bureau of Agricultural Economics**

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MEASURES intended to assure the solvency of country banks often are formulated with little regard for the vast differences among these institutions. The differences are not merely nominal. On the contrary, they are so great that requirements or policies which may be well adapted to some banks are sometimes totally unsuitable for others. Although much can be said in favor of uniform standards of banking practice, it is easily possible to carry the idea of uniformity too far.

An excellent example of this point is found in the varying needs of country banks for liquid assets. Instead of discussing the subject in general terms, let us use two banks, representing widely different types of country banking, for comparative analysis. Both institutions were organized before 1910 and still maintain open doors to their customers. Although their policies may not have been the best, the banks at least have survived these troublesome times.

The comparison begins with the types of agriculture served by the banks. One is located in central Iowa where a combination of crop and livestock enterprises produces a year-round income for farmers, and the expenses of production also are spread throughout the year. The other is located in a section of Virginia where the principal sources of income are early white potatoes, peas, lima beans and a few other perishables. Expenses of production in this area are heavy from November to the middle of June, but the marketing season covers only the period from May through September. A large part of the income is received in June and July.

The effects of these differences are clearly apparent in the deposit trends of the two banks (Figure 1). In the Iowa bank, deposits run a comparatively even course with little fluctuation from one time of the year to another. Deposits of the Virginia bank, however, rise to a tremendous peak from May to July or August, after which they fall continuously to a low point in the following summer. Moreover, changes in the annual minimum and maximum levels of deposits are greater in the Virginia bank than in the Iowa bank.

In so far as the seasonal demands of depositors determine the need for liquid assets, it is obvious that these two banks are in radically different positions. Seasonal requirements of the Iowa bank's depositors impose little need for liquidity, as a comparatively small cash reserve would absorb most of the fluctuations of deposits. But the Virginia bank must hold liquid assets in July or August equal to 40 to 50 per cent of its deposits if it is to meet the withdrawals

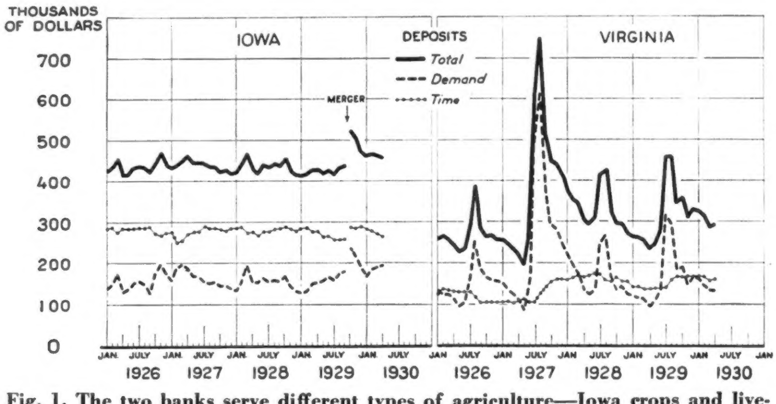



**Fig. 1. The two banks serve different types of agriculture—Iowa crops and livestock producing year-round income, Virginia vegetables being marketed in midsummer. Note the effects on bank deposits**

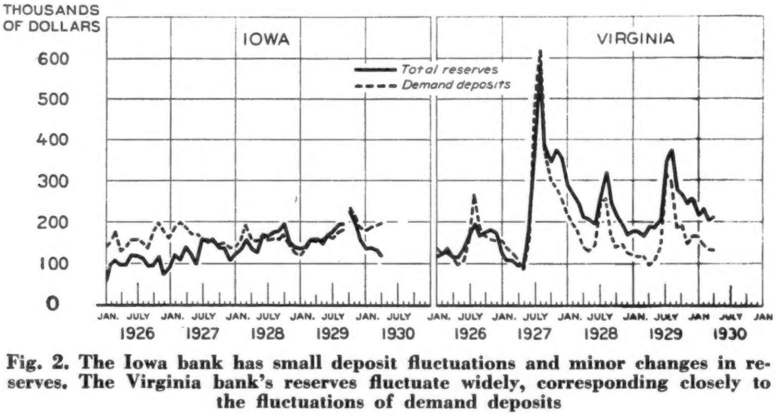



**Fig. 2. The Iowa bank has small deposit fluctuations and minor changes in reserves. The Virginia bank's reserves fluctuate widely, corresponding closely to the fluctuations of demand deposits**

which commonly occur in the following months. An extra margin of liquid assets is needed to protect against annual changes in the lows of deposits. As the seasonal trough of deposits is approached, the volume of liquid assets needed, of course, grows less.

In both banks the need for liquidity arises more largely from the demand accounts than from time and savings accounts. This difference is more clearly apparent in the Virginia bank than in the Iowa bank, as both demand and time accounts in the latter are comparatively stable. It is also interesting that time accounts in the Iowa bank are much larger, relative to demand accounts, than those of the Virginia bank. Figures on banks in the country at large indicate that banks in areas of diversified agriculture usually have larger accumulations of time and savings accounts than banks in more specialized regions. This is an added factor of stability in the credit resources of diversified areas.

To provide an adequate degree of liquidity both banks rely largely on reserves, using this term to include holdings of bonds and commercial paper as well as cash and bank balances. Total reserves vary in volume (Figure 2), but in the main, are about equal to the demand accounts. The small deposit fluctuations of the Iowa bank do not occasion large changes in reserves. In the Virginia bank, however, reserves fluctuate over a very wide range, corresponding closely to that of the demand deposits. Both banks increased their reserves, relative to demand accounts, between 1926 and 1930, and at all times carry reserves providing large margins of safety over seasonal requirements.

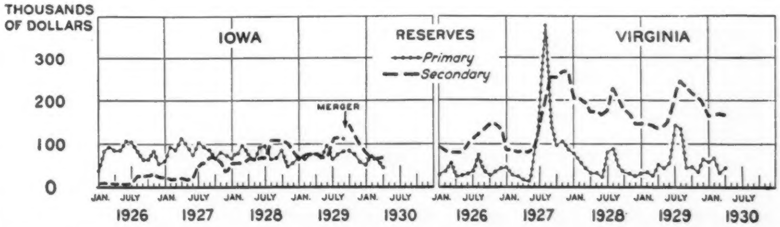



**Fig. 3. Note the reserve policies. The Iowa bank has generally higher primary reserves, perhaps needlessly high. Virginia: small primary reserves, the bank liquidating secondary reserves or borrowing when necessary to prevent exhaustion of primary reserves**

An interesting difference in the reserve policies of the banks is illustrated in Figure 3. Although demand accounts of the Iowa bank are both smaller in volume and more stable than those of the Virginia bank, the Iowa bank generally carries the higher primary reserves. In fact, it is questionable if the primary reserves of the Iowa bank are not needlessly high. The Virginia bank, on the contrary, usually operates on small primary reserves, liquidating its secondary reserves or borrowing when necessary to prevent the exhaustion of primary reserves.

## LEGAL REQUIREMENTS

IN some measure this difference in reserve policy may have been due to legal requirements which, prior to 1929, were higher in Iowa than in Virginia (Figure 4). To the extent that this is true, we have a good example of the failure of legal requirements to suit the needs of banks, for the exceedingly variable deposits of the Virginia bank impose much greater need for primary reserves than the stable deposits of the Iowa bank. Furthermore the law makes entirely inadequate provision for the differences in reserve requirements from one time of the year to another. These are very great in the Virginia bank. Little can be claimed for the efficacy of legal reserve requirements beyond the fact that they fix a minimum level for reserves. The value of this accomplishment is doubtful, inasmuch as the minimum level, in institutions like the Virginia bank, is often far below actual requirements.

With funds from the demand deposits held mainly in reserve, an important source of funds for local loans is the time and savings accounts (Figure 5). Local loans in both banks, however, generally exceed the time accounts, the excess being covered chiefly by borrowing in the case of the Virginia bank, and, to a considerable extent, by capital funds in the Iowa bank. At times the Iowa bank uses a substantial portion of its demand deposits for local loans, but it seldom borrows from other banks. Time and savings accounts relatively, as well as absolutely, are greater in the Iowa bank so that it can devote a larger share of its resources to local financing than is possible for the Virginia bank.

There is little evidence that local loans of liquid character are selected for the purpose of meeting depositors' demands. Provision for these needs is found mainly in the primary and secondary reserves. Local loans of the Iowa bank do not move in close conformity to seasonal changes of deposits, and the gradual liquidation from 1926 to 1930 resulted, according to the cashier, from a deficiency of satisfactory loan applications (Figure 6). In the Virginia bank, loans are increased at the time of a seasonal decline in deposits, and liquidation at harvest time generally is well under way, if not completed, before deposits turn downward.

Nevertheless, many of the loans are liquid. An analysis showed that of the Iowa bank's loans outstanding on March 1, 1929, about 34 per cent were

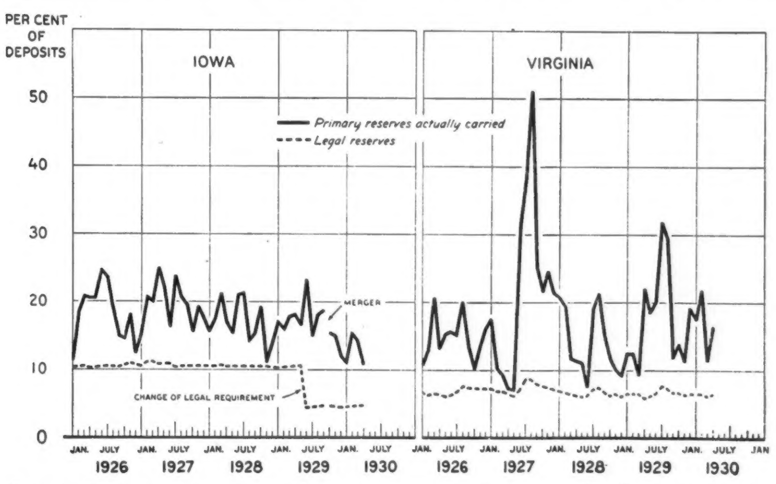



**Fig. 4. Perhaps the reserve differences are partly due to legal requirements, higher in Iowa than in Virginia prior to 1929. A good example, too, of the failure of legal requirements to suit the needs of banks beyond fixing a minimum level for reserves**

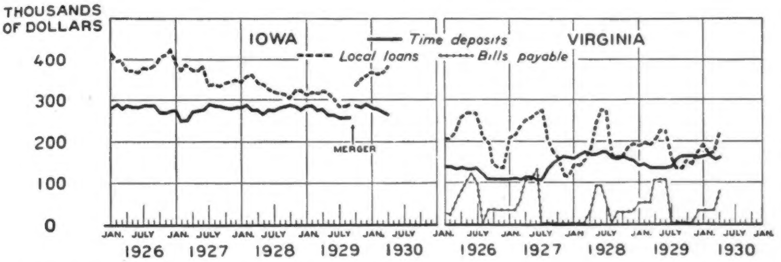



**Fig. 5. With demand funds held mainly in reserve, local loans in both banks generally exceed the time accounts. The Virginia bank covers the excess chiefly by borrowing, the Iowa bank by capital funds to a considerable extent**

paid within one year, while of those outstanding on September 1, 1929, about 20 per cent were paid within one year. The most liquid loans, representing advances for the purchase of feeder cattle and feed supplies, are made during the fall and winter months and are liquidated during the spring and summer months. Although no analysis has been made of the Virginia bank's loans, it is obvious from an inspection of Figure 6 that they are more liquid, at the peak at least, than those of the Iowa bank.

The usual statement that loans must be liquid to meet depositors' demands needs careful qualification in the light of this showing. If a large proportion of the depositors demand their funds within a short period of time and if banks have not made *other* provision for meeting such demands, it is true that liquid loans are needed to weather the storm. But other provision in the form of primary and secondary reserve holdings usually is made for meeting seasonal demands of depositors. It is often poor banking practice to liquidate local loans at the time of a seasonal decline of depositors, since the same factors that cause deposits to decline frequently bring an increase in local demands for loans. Many country banks, like the two used here for illustration, carry reserve holdings substantially in excess of their seasonal requirements.

This makes it appear that liquid loans generally are needed mainly to meet the demands of borrowers rather than those of depositors and that in fact they are seldom used to meet depositors' demands except in times of depression or in cases of runs by depositors. Each year the Virginia potato growers and the dealers who help finance them need loans to produce or finance a crop. These needs must be met if the bank is to render complete service, and loans made on one year's crop must be liquidated if the bank is to have funds or borrowing power for financing the next year's crop. The same holds true in Iowa, although loan demand there is so evenly distributed throughout the year that the figures on outstanding loans do not reveal the recurrent lending and repayment operations.

One other point should be mentioned in this connection. Beneath what may be called the "upper crust" of liquid loans, each bank has a substantial volume of capital loans. In the Iowa bank such loans represent a considerably larger proportion of total loans than in the Virginia bank. The fact that many of these loans bear face maturities of six months or less does not alter their essentially unliquid character. This type of loan has been roundly criticised by many writers on banking.

## THE UNLIQUID LOANS

IN view of the preceding discussion, it should be clear that ordinarily this substructure of unliquid loans is not in the least harmful, providing the loans are well secured. Ordinary or even very unusual demands by depositors can be met by these banks in spite of unliquid holdings. For instance, the Iowa bank, a large proportion of whose loans might be classed as unliquid, had a deposit decline of about 30 per cent during 1931. This decline it met by liquidating secondary reserves and about a normal proportion (30 per cent) of loans. Of course, the bank did not make a large volume of new loans, but it safely met this greatest deposit decline of its experience without borrowing a dollar from other banks.

Not only may country banks safely handle unliquid loans (the volume will differ with individual banks), but in many cases they cannot adequately serve their communities without accepting them. The Iowa bank cannot find safe local employment for more than 30 to 40 per cent of its available loan funds unless it accepts loans with normal liquidating maturities in excess of a year. Moreover, borrowers need a large volume of loans for capital or semi-capital purposes and can give excellent security for them. Since these loans bear good earning rates and the bank has ample liquidity even if it makes such loans, why should it refuse them and place its funds in outside investments?

Comparison of these two banks, whose requirements for liquidity differ so widely, points to the problem of laying down set rules for all banks. The proportion of assets which the Iowa bank may safely hold in unliquid form would be ruinously high for the Virginia bank. Conversely, restricting the Iowa bank to the proportion of unliquid assets which is safe for the Virginia bank, would needlessly limit its activities and curtail its service to its local community. In similar manner different reserve policies are required by the two banks, and there is justification for the recurrent rediscounting of the Virginia bank which would not apply to the Iowa bank.

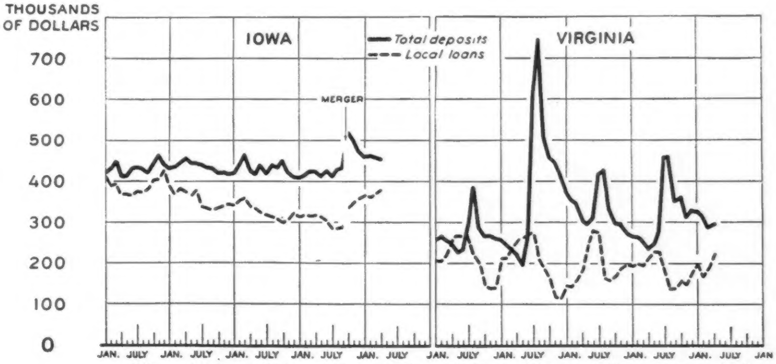



**Fig. 6. The Iowa bank's local loans do not conform closely to seasonal deposit changes. The Virginia bank's loans are increased at the time of seasonal deposit declines, and liquidation is well under way before deposits begin their downward sweep. However, many of the loans are liquid**

# INVESTMENTS—A Guide to Good Bond Purchases

(CONTINUED FROM PAGE 17)

Over a period of years the bank will be in a position continually to average down the cost of its bond account and, with each averaging down, the yield becomes commensurately greater. Again, the ability to borrow on a truly prime list of investments is not questioned. The highest grade credits, whether in bonds or paper, inevitably seek their own levels, and that is usually—relative to other shades of credit—a high one.

**IV. UNDER normal conditions, the proportion of short-term issues in the total account should be around 30 per cent to 40 per cent, although these figures will vary with the requirements and status of each institution.**

IN order that funds may be available always to take advantage of changes in the market, it would appear desirable to maintain a minimum of 15 per cent in issues maturing within 18 months. In times when it is believed with sufficient certainty that good bonds are at a high level, there is no reason why long-term bonds should not be liquidated entirely and the total account be placed in short-term issues. Few institutions, however, will have this certainty to the required degree, and it is not intended that the investment account of the bank should be a trading account.

If under normal conditions 30 per cent to 40 per cent are in issues maturing within 18 months to two years, and readily marketable, advantage can be taken of breaks in the long-term market to purchase long-term bonds advantageously. In other words, it would be the aim of a bank's investment account to obtain for that institution a good average return over a period of years.

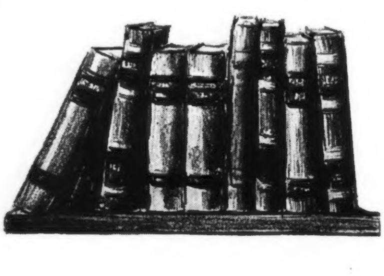
The goal should always be the averaging down of the price at which the high grade securities are purchased. For example, if American Telephone 5 per cent debentures, due 1965, are selling around 107 to 108, long-term 4 per cent prime bonds more than likely will be selling around par, a dead-line of some practical importance which may be exceeded for short periods or for periods in which the commodity price level is extremely favorable toward bonds. However, over a period of years the 4 per cent return on prime long-term credits has proved to be a dead-line of considerable significance.

With a good percentage of short-term issues the bank will be in a position to take advantage of the break which will inevitably come in the long-term market. An investment account is not a trading account, except as the institution, of its free will and accord and in the light of its particular policy, sees fit to make it so.

Even at what may seem to be the peak of the market for long-term bonds, the investment account would still contain some long-term issues, but over a period of years the best plan would be to have the price at which these bonds are held averaged down gradually to the point where the return is satisfactory. Some will say that such a policy will require funds in a bond account at all times, and it is just this permanency of funds that is essential. Permanency of funds and the correlation of a bond account with the general policy of the bank in its placing of funds are the two basic requirements for a successful operation of an investment account. Moreover, as a practical matter there is little reason why these two principles should not be followed in the bond account.

**V. WITH the exception of municipal bonds and possibly equipment trusts, there is no reason why banks should ever purchase securities not listed on the New York Stock Exchange or the New York Curb. The exceptions are too rare to mention.**

THE listing of an issue furnishes something like a skeleton of protection, but is in no sense a recommendation as to its fitness. It has been stated that an issuing house often has been able to make a better market for its bonds when there was no quotation on the New York Stock Exchange or the New York Curb. In addition, it has been contended that some issues are too small to list. If this be true, the bank should not own bonds because marketability in varying degrees is always desirable.



Actual practice has proved that the idea of an issuing house making a market for unlisted securities is fallacious. The listing of bonds automatically gives them a certain advertising, and often a market following may be gained in this way. It is true that the issuing house may assist in popularizing a bond, but this can be done just as well when the bond is listed as when it is not listed.

**VI. IT is not necessary to review the errors made in buying bonds before the market crash of 1929. Bonds were not purchased in that period. They were sold.**

NOR is it necessary to indulge in recriminations against any particular parties or sets of individuals. The mistakes of that period were a product of the times and are not likely to be repeated.

It is certain that banks must adopt different practices in purchasing bonds in the future from those followed in the past.

It is too much to hope that salesmanship will be completely absent, but it can be expected that the factor of salesmanship will be kept at a minimum, largely through the attitude of the banks themselves. The banks constitute the chief reservoirs of credit and if one examines the situation over a period of time, it is evident that banks control the credit picture. It is too much to expect the banks by broad policies to control business as a whole or to bear the responsibility for such control; but it is not too much to expect them to acquire and use a certain knowledge of credits in all forms which will make for sound industrial growth and expansion.

It is certainly true that if the banks had exercised the same wisdom in their bond purchases that they had exercised in their extension of commercial credits, the catastrophe of 1929 and subsequent developments would hardly have been as intense.

There are two distinct types of banks which will be concerned with bond purchases. The city bank, exclusive of those in the large metropolitan centers, and the country banks. Both must follow the same fundamental principles as to the quality and quantity of bonds bought, but the country institution will inevitably have to lean on its city correspondent for counsel.

# Will Congress Need a New Word for "Cancellation"?

(CONTINUED FROM PAGE 21)

power commonly upon being inaugurated does call a special session of Congress. But all that is in sight now, at the next session, is another moratorium.

The attitude of Congress with regard to the debts was shown when the President asked approval last December of the moratorium. Congress hated to vote for the moratorium but could not help itself. To give expression to its feelings it attached to the moratorium a reservation declaring against reduction or cancellation of the debts. The President in asking approval of the moratorium said that some readjustment of the debt settlements would become necessary and accordingly he asked for a reconstruction of the debt funding commission to negotiate changes in the existing settlements. Congress refused to reconstitute the debt funding commission. It is perfectly clear that in January of this year Congress would not have cut a dollar from the war debts. But Congress in the reservation avoided saying anything about a further moratorium. It probably realized that another moratorium would be inevitable.

### THE PARTY PLATFORMS

THE Republican party in its platform adopted at Chicago and written in accordance with the wishes of the Hoover Administration made no reference to the war debts. The Democratic platform declared against cancellation. So the chances of speedy action on the debts will probably be better if Mr. Hoover is re-elected than they will be if he is succeeded by Governor Roosevelt.

When Congress last January approved the moratorium with very bad grace it came directly from the people who had had the moratorium before them for six months, and it undoubtedly reflected the sentiment of the country. People asked why the Administration insisted on doing something for Europe when it was doing nothing for the unemployed and for the farmers in this country. They said that Mr. Hoover had acted to save the bankers in New York. If the Government could spare money for Europe, why, the veterans asked, couldn't it pay the soldiers' bonus? The average voter, and the average Congressman too, couldn't get it into his head that Mr. Hoover had acted in the interests of this country, that the collapse of Germany, and, along with Germany, of most of Europe, would increase economic distress in this country and delay the process of recovery.

The ordinary citizen looks upon debts between governments exactly as he does upon debts between individuals. He pays his debts; why shouldn't a government pay its debts? He insists upon his debtors paying him; why shouldn't the United States insist upon its debtors paying it? He can't see that intergovernmental debts cannot be paid in goods so long as every country has tariff walls excluding the goods of every other country. And he can't see that paying in gold drains the gold supply from the debtor nations into the treasury of the creditor nations. And neither can the average Congressman see these things, or he shuts his eyes to them because it is unwise to perceive things that his constituents do not grasp.


Directeur-Rédacteur en chef : CAMILLE AYMARD.

LES SUITES DE LAUSANNE

Pas un sou pour les gangsters !

*Un nouvel accord franco-anglais sera rendu public ce soir*

Nous croyons savoir que le Conseil des ministres de ce matin a été d'une exceptionnelle importance.

Certes, il y a été question des pro- ... la discussion au- ... Mais rien ... sujet. Le ... tion des ... ter aux arrogantes prétentions du gouvernement de Washington, il aura tout le pays avec lui.

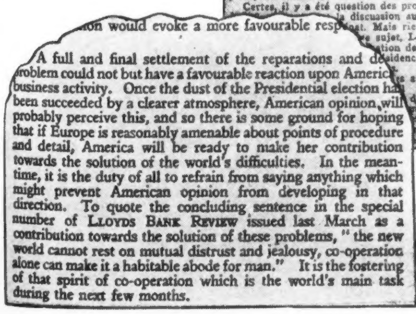
Nous n'encaisserons plus rien de l'Allemagne, soit.

Nous paierons 2 milliards d'impôts de plus, parce qu'il a plu au président Hoover de faire un coup de Bourse aux frais de la France, soit.

Mais pas un sou pour payer des créanciers responsables de notre ruine !

Surtout, pas un sou pour le gouvernement de spéculateurs et de gangsters qui siège à Washington !

CAMILLE AYMARD.


...ion would evoke a more favourable resp...

A full and final settlement of the reparations and de... problem could not but have a favourable reaction upon Americ... business activity. Once the dust of the Presidential election ha... been succeeded by a clearer atmosphere, American opinion will probably perceive this, and so there is some ground for hoping that if Europe is reasonably amenable about points of procedure and detail, America will be ready to make her contribution towards the solution of the world's difficulties. In the meantime, it is the duty of all to refrain from saying anything which might prevent American opinion from developing in that direction. To quote the concluding sentence in the special number of LLOYDS BANK REVIEW issued last March as a contribution towards the solution of these problems, " the new world cannot rest on mutual distrust and jealousy, co-operation alone can make it a habitable abode for man." It is the fostering of that spirit of co-operation which is the world's main task during the next few months.

**A contrast. Above: "Not a Cent for the Gangsters!" shouts *La Liberté*, the Paris daily—meaning by gangsters, the United States of America. Left: a British view expressed in a recent issue of *Lloyds Bank Review***

### POPULAR EDUCATION

SO there has got to be a lot of education before Congress will face honestly the question of dealing finally with the war debts. For Congress does not act quite honestly about the debts. The majority of both Houses would probably admit privately that the debts will never be paid. But still they wish to keep them standing on the books, "to pass on to our great-grandchildren" as one of them said. The necessary popular education will not take place in this campaign, for the reason that both parties are afraid to tell the voters that something drastic will have to be done about the debts. Mr. Hoover knows it; so he kept his party from committing itself in any way in its platform regarding the debts. The Democrats know it, but they thought there would be a slight advantage in providing in their platform that there would be no cancellation—even if we kept only one dollar of all that the Allied nations owe us, there would still not be cancellation.

Fortunately Senator Borah has undertaken the task of presenting the realities of the debt issue to the people of the country. It will be his task to lodge in the heads of the voters the idea that the debts are a costly thing to hang on to, that it will be to our own interest to reduce or virtually cancel them. And no one can do it better than Mr. Borah. He does not represent Wall Street opinion. He is as free from any foreign predilections as any voters in the hinterland. He has not been a debt cancellationist. He speaks with authority and his voice has a ring of sincerity.

And in the hard school of experience the country is learning what Mr. Borah is putting into clear and forceful words. Some day the great structure of intergovernmental debts running into billions will be looked upon as one of the most fantastic financial achievements of the mad decade that followed the War. There underlay it the same psychology that underlay stock prices in 1928-29. What were untold billions of debts to an age that was going up and up! Sooner or later, there will be a Congress that will face the debt question in the light of reality. But not this Congress in its next and last session.

# Ideas and Opinions

## A Time-Saving Digest of Current Business Thought

**This is a clearinghouse of items aimed to keep us informed without taking too much of our time**

### RECEIVERSHIPS

"AT the present time there is before Congress a bill which would prohibit the appointment of corporations or trust companies to handle receiverships. The answer to such a proposition is a question. Do business interests want honest, efficient, businesslike handling of their bankruptcy cases or would they prefer that judges appoint their friends or political aides to handle such cases?"

**—Judge John C. Knox.**

### R. F. C. LOANS

"THIRTY-SEVEN per cent of the depositors in the United States have been benefited by the loans that have thus been made. Why, then, should anybody take the position that it is the bank which is favored and not the individual?"

**—Atlee Pomerene.**

### HOME LOAN BANKS

"THERE are times when forced liquidation of indebtedness is indefensible, certainly if any other means of procuring funds exists. Payment may be nominated in the bond, but, as Portia proved, it may not be rightfully exacted when payment drains the life blood. And these days the courage and hope of men and women are the life blood of our recovery."

**—Franklin Fort.**

### GERMANY

"THE contention that the credit stringency of Germany is due to the fact that Germany has so little gold is a fairy tale. German industry and business can perform the enormous tasks facing them only if their currency is safe against unforseeable fluctuations—briefly, only if Germany maintains the gold standard."

**—Dr. Hans Luther.**

### LABOR

"THE development of any industry is like a two-way traffic—prosperity and contentment must run both to the worker and the employer. Neither one can hope for any length of time to profit at the expense of the other but each will inevitably profit through the prosperity of the other."

**—Lt. Gov. Lehman of New York.**

### FARM RELIEF

"FARMERS are afraid of too much banking influence in farm relief. Those who have nothing but the bankers' viewpoint should not be permitted to control farm relief work. I am fearful that the R. F. C. will not be inclined to give the farmers the same sympathetic treatment as was afforded by the Federal Farm Board."

**—Fred Brenckman, National Grange.**

### UNEMPLOYMENT

"THERE is a general feeling that the depression is on its way out, yet we cannot have prosperity with some 10,000,000 people out of work. Improvement cannot go far until these men begin to move back into jobs. Once they begin to move back to work, however, the employment situation will cease to be a drag and become instead a spur to the return of prosperity."

**—Walter Teagle.**

### BANK REGULATION

**"The events of the past three years prove that the supervision of national banks for the protection of the public has been ineffective. I propose vastly more rigid supervision. We have witnessed not only the unrestrained use of bank deposits in speculation to the detriment of local credit, but we are well aware that this speculation was encouraged by the Government itself. I propose that such speculation be discouraged and prevented."**

**—Franklin D. Roosevelt**

### RECOVERY

**"Confidence is returning. A return flow of gold from abroad has begun. Europeans are again investing in our markets. The demands for banking assistance from the Reconstruction Finance Corporation have diminished by $170,000,000 from the previous month. That our financial foundations are unimpaired is indicated by the fact that 98 per cent of our banking and fiduciary obligations to the public are intact. Seventy-five million insurance policies and 25,000,000 depositors have been saved from jeopardy."**

**—President Hoover**

### PRICES

"IT is the continuous looking downward of the price level which undermines all economic initiation. As soon as this tendency has been brought to a halt by the proper banking policy, we have laid the financial foundations for a sound and lasting recovery. At the moment it is to be hoped that we will not build upon these foundations a house of cards in the form of inflation."

**—Dr. Lionel D. Edie.**

### SMALL LOANS

AN analysis of six months loans by the Household Finance Corporation, totaling $27,784,716, shows an average loan of $193.50, with 35 per cent of the total going to pay bills accumulated during periods of unemployment, 9.3 per cent for small business needs and expansion, 13.5 per cent for funeral and hospital bills, 10.4 per cent for taxes and only 1.7 per cent for luxury purposes. Borrowers were drawn from 37 different general vocations, with decreases in 1932 among wage-earners, and increases among salaried personnel and domestics. The average income of the borrower is $160.58 a month.

# BURROUGHS ADDING MACHINES

The new Burroughs with double motor bar subtracts as quickly and easily as it adds. By depressing the minus motor bar, an amount is instantly subtracted and designated by the symbol (—). By depressing the plus motor bar, an amount is instantly added. The machine also prints a credit balance, automatically designating it (CR).

## *Many new styles especially designed for Banks*

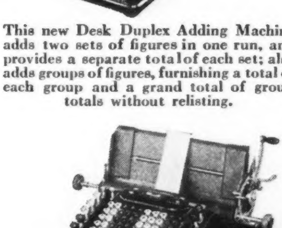
Several new Burroughs Adding Machines recently have been included in the long line Burroughs offers for every bank requirement. For routine addition or subtraction, writing transit letters, interior proving, trial balance, proof of ledger posting or other bank figure work, there are Burroughs Adding Machines with special features that exactly adapt them to the kind of work to be done. Moreover, the new machines provide greater speed, simplicity and ease of operation. You will be well satisfied if you ask the local Burroughs office to inform you of the numerous improvements Burroughs has recently introduced.

BURROUGHS ADDING MACHINE COMPANY, DETROIT, MICH.

**Burroughs**

An eight-column Burroughs Desk Adding Machine. All styles of Burroughs Desk Machines require only 9" x 13¼" space; are operated with one hand; may be moved aside when not in use, or easily carried to another desk.

This new Desk Duplex Adding Machine adds two sets of figures in one run, and provides a separate total of each set; also adds groups of figures, furnishing a total of each group and a grand total of group totals without relisting.



Burroughs Adding Machine equipped with double adding mechanism. Wide, movable carriage for listing and totaling in various columns of wide forms. May be obtained with special features for proof or transit work.

# The Public Relations of a Small Bank

## How One Institution Holds Customer Confidence by Giving the Facts in Simple Terms

By G. CARROLL GRIDLEY

**Misunderstandings are inevitable as long as the public knows as little about banking as it does today. This article has special timeliness because of the effort being made in various parts of the country to give would-be borrowers a chance to air their grievances, under the auspices of credit-thawing committees recently organized in the several Reserve districts. The sum of the grievances against banks thus far uncovered tends to prove that bankers actually have been cautious with their depositors' money. The complaints also show a wealth of ignorance about banking. So Mr. Gridley, who is vice-president of the First Lake County National Bank of Libertyville, Illinois, calls attention here to certain bed-rock facts about banks and lending—facts which apply to all banks, large and small**

THE first fact that anyone needs in thinking about banking as it really is, is that deposits are liabilities and that when a banker accepts a deposit he is really borrowing that much money. If it is a deposit to a checking account, it is a call loan. A savings deposit in our state may be considered at best a 60-day loan to which, however, the lender looks for repayment on call and for which he will be waiting at the front door on the morning of the sixtieth day after we invoke the 60-day clause. A time deposit is a time loan. All this is elementary.

Yet as a class bankers dearly love to borrow from the public just as great sums as possible—even when, in times like these, there is no profit in the borrowing. Every thousand dollars that we take in at a teller's window means added expenses: handling, broker's commissions, risk of loss, bookkeeping, and so on. If we can care for our legitimate requirements with the money we already have, we are better off to accept no more deposits until we need them. For when we succeed in piling up huge deposit totals above our actual needs, we have to find ways to employ this money at a profit. So we use it to make loans which in tighter times would not look attractive—and fail to collect some of them. We also use it to buy securities which do not measure up to the most conservative standards—and suffer depreciations and defaults when the market turns. No, there is no more sense in a banker's borrowing from the public more money than he needs than there is in a merchant borrowing from the bank more money than he requires for his store. In either event, the excess of money increases expenses and leads to unwise risks.

This may seem a-b-c, but it has been introduced to show that the commonest banking transaction—accepting deposits—can be thought of more clearly by reducing it to simple terms. For this practice is the essence of our own bank's method of dealing with customers and of helping them to understand what is sound banking by talking to them in terms of everyday transactions that they can readily grasp.

In fact, while I have been sitting in my private room thinking over the plan for this article, an incident outside in the main banking room affords an excellent example of how readily our own people translate banking into the other man's interests. A customer must have come in to complain that we refused to cash a check for a stranger who is a friend of his, though that part of the conversation was not audible through the closed door. But as the pitch of the argument rises, I hear our cashier saying, "Of course I couldn't cash it on that kind of identification. Look here, Bill. Would you want us to pay out *your* money to a stranger on no more identification than that? Well, that's exactly what it would have been—your money and the money of the other depositors of this bank. If we just take enough chances with cashing checks for strangers, pretty soon you and the other customers won't be able to get *your* money that you have deposited here."

"Well," says Bill, convinced against his inclination, "I never thought of it that way, but I guess you're right."

There *in parvo* is our policy of educating customers. Whenever any question arises between a customer and the bank, we explain it in terms he cannot misunderstand, in terms of his own money interests. And we go out of our way to assure as wide a general comprehension of banking in this simplified language as we can.

For example, Jones comes in to borrow \$500. He probably is good for \$500 a dozen times over. But he wants it, let us say, for some capital improvement in his store which he believes will pay for itself within a year. We turn him down because we are not making capital loans, more particularly in times like these. But we do not merely send him away with that explanation. Instead, we tell it to him so that he simply cannot go away angry.

"The reason we cannot make this loan is because of the kind of banking we do," we point out. "Every once in a while you bring \$500 in here and

shove it through the window for deposit to your account. You bring it here because you know you can get it out next month or next week or tomorrow. In fact, if you thought you couldn't get it tomorrow on demand, you'd take it out today.

"Now then, Jim Smith is just the same way. He brought in $500 this morning. He can have it back any time he asks for it. What you are asking for, even though you didn't realize it until just now, is that we lend you Jim's $500. We can lend it to you if you see a good chance to buy a stock of goods and sell it quickly; we know you're good for $500 and that you're honest. But we can't loan you $500 for an improvement on your building because you can't turn that into cash in a hurry if Jim Smith comes in here the day your note is due next month and asks for his $500. This isn't a banking loan, Jones. Don't you see it?" Jones sees and goes out as happy as he can be without the $500.

It worked out the same way with service charges on checking accounts. When we decided to put that into effect, with a metered charge, we did not simply notify our customers that effective on such-and-such a date we would charge 4½ cents for each check paid, 1¼ cents for items deposited, 5 cents for deposits and with another charge for account maintenance. Instead, we selected a handful of customers who had been the most flagrant money-losers on our books and wrote asking them to call when convenient. One by one they came, to be met by the same general talk.

"You've had a nice account with us for a good many years, Harry, and we appreciate it. I thought you'd be interested to learn something we found out when we began analyzing our accounts a while back. You know, when we figured out just what it costs us to handle every item, we discovered we had been losing money on a lot of accounts that we always thought were profitable to us. And yours is one of them. I was never more surprised in my life!

**Take the first ten minutes some morning and try the procedure described in this article**

### THE BANKER EXPLAINS

"HERE'S the way it figures out—." We push a regular statement form, mimeographed into a service analysis, across to him. "You see, it costs us just about so much to handle each of those services you see listed. The expense on your account, itemized right there, was $4.68 last month. Now then, your average balance was pretty good, $274. But you know, we can't loan all that out at 6 per cent. There's what we call the float, the part that isn't collected in money for two or three or more days after we credit a check to your account. And we carry about 15 per cent reserve on all deposits. To have your money available, we must put a lot of it in securities that we can sell in a hurry—Government bonds, and commercial paper that pays anywhere from 2 per cent to 3 per cent interest. We can't make 5 per cent on it, but we credit you at that rate—it makes 74 cents. This means that last month we lost exactly $3.94 on your account.

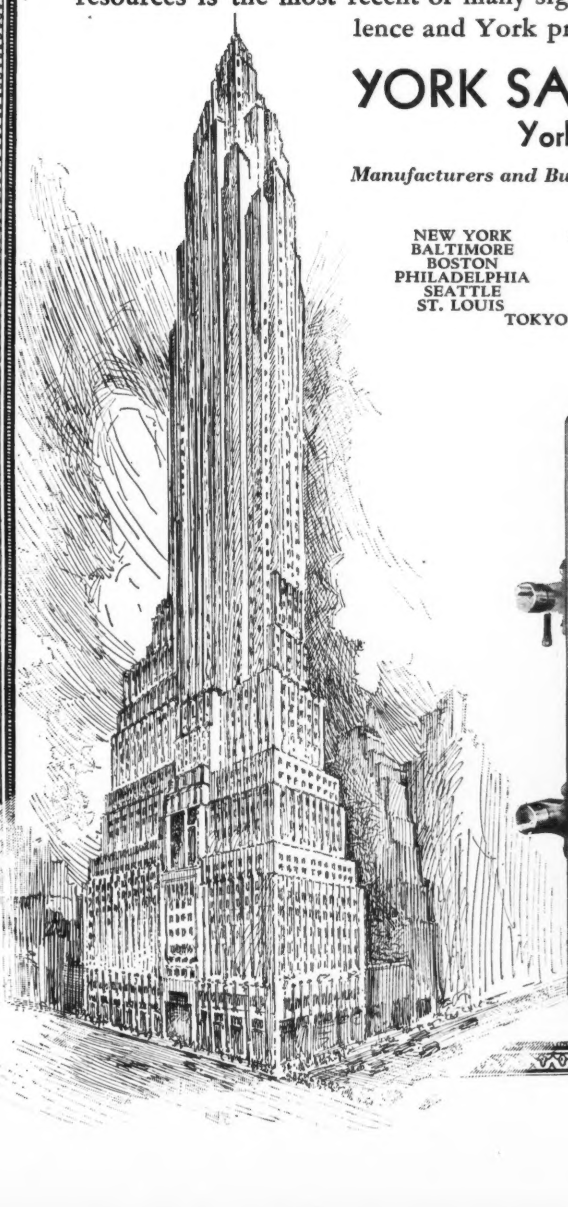
"You understand that we can't afford to lose money on an account month after month because if we do, pretty soon we shall use up our surplus and capital. It's just the same as in your business—if you lose money regularly, you go broke. Now then, you can remedy this in one of three ways: increase your balance, cut down the activity, or else we can debit you each month for the difference. You think it over and tell us what you want to do about it, will you?"

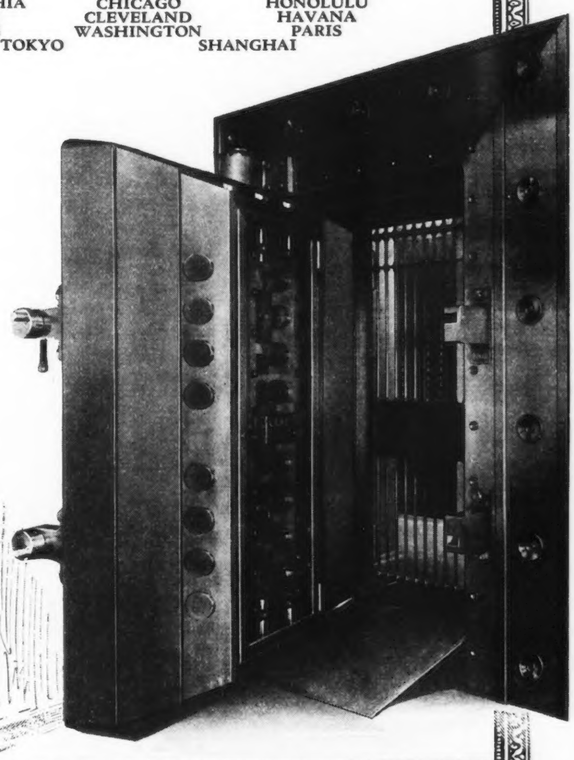
Practically none of them mentioned it again. So, next month we wrote reminding them of the talk and enclosing this month's analysis. The third month, we simply debited their accounts.

I know of no account that this cost us, handling it by groups over several months, even though we were the only bank in town making the charge. And this seems convincing evidence that it pays to educate customers.

It is quite as important and profitable too that directors and shareholders be thoroughly conversant with sound principles and practices. Once they have been educated to these, they are invaluable for broadcasting facts that the public should know. But until the banking knowledge that leads to understanding is assimilated, even a director is likely to see these questions more from the borrower's side than from the lender's.

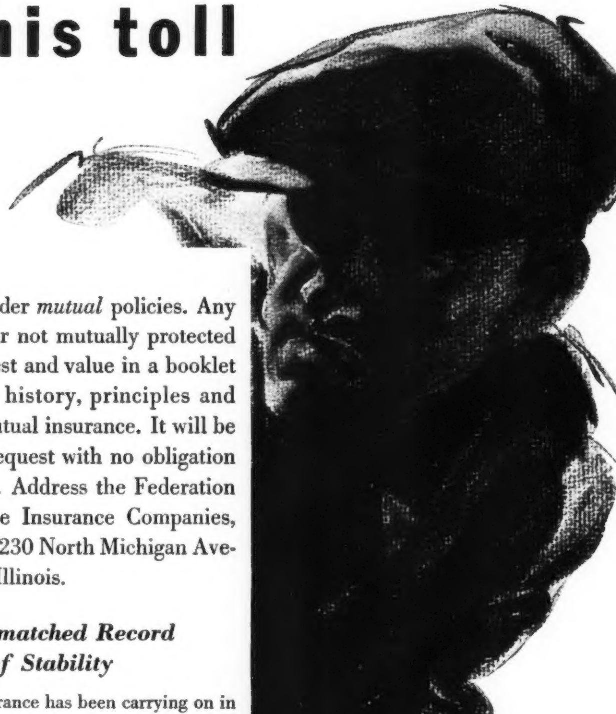
Our directors are well grounded because we have kept this in mind as an important part of our job. Some time ago, before the consolidation which in May resulted in our present bank, we foresaw the wisdom and necessity of giving a more intimate understanding of banking policies and practices to a larger group of our associates. We realized the advantage of having correct information (CONTINUED ON PAGE 90)





# "PUBLIC ENEMY NO. 1"

## ...takes his toll day after day



**FIRE—**
**"Public Enemy No. 1"**
**has destroyed property to the extent of over 5 billion dollars in the last ten years.**

TWELVE hundred buildings a day—that is the average toll of fire—"Public Enemy No. 1."

This loss, great as it is, would be far greater but for continuous, aggressive fire prevention work.

*Mutual* fire insurance companies have taken a leading part in fire prevention effort for many years and through this effort a great army of mutual policyholders has learned how to protect property from the possibility of fire.

One direct result of this has been a marked reduction of fire loss and this saving, under the *mutual* plan, has been passed on to policyholders in dividends—millions of dollars annually—a substantial part of his insurance premium to the individual policyholder.

The sound protection and the considerable saving in cost that is made possible by the mutual plan of insurance has appealed to thoughtful property owners for well over a century and a half—never more than now when it is so necessary to keep every item of overhead cost down to a minimum.

American property to the extent of over 40 billions of dollars is protected against fire under *mutual* policies. Any property owner not mutually protected will find interest and value in a booklet outlining the history, principles and methods of mutual insurance. It will be sent free on request with no obligation or solicitation. Address the Federation of Mutual Fire Insurance Companies, Room 2100C, 230 North Michigan Avenue, Chicago, Illinois.

### *An Unmatched Record of Stability*

Mutual fire insurance has been carrying on in good times and in bad, for 180 years. How successfully may be judged from the fact that the 75 companies comprising the Federation of Mutual Fire Insurance Companies paid dividends to policyholders, amounting to $15,239,744.00 in 1930, and $17,639,835.00 in 1931—the largest dividends in their history. This in addition to maintaining full legal reserves.

The policyholders of these companies in the last two years, therefore, enjoyed a reduction of nearly thirty-three million dollars in the net cost of their fire insurance.

Six of the Federation companies are over 100 years old; fifty-four have more than half a century of corporate existence.

Mutual fire insurance has grown with the nation from its beginnings. The depression years have accentuated its fundamental soundness.

# MUTUAL FIRE INSURANCE

FEDERATION OF MUTUAL FIRE INSURANCE COMPANIES

*Nation-wide Representation and Service*

*An American Institution*

# The Condition of BUSINESS

A CLEARLY defined second stage of recovery from depression was established during the month ended September 10.

The first stage, which began to be discernible the middle of June, consisted mainly of growing public confidence that a turn for the better was impending. It was based chiefly on conviction that the economic disease must have about burned itself out and that a number of measures taken to promote recovery would presently begin to make themselves felt. This confidence for several weeks lacked staple nourishment so far as statistically visible improvements in trade and industry were concerned, but nevertheless it seemed to continue to gain strength in the stimulating rays of a genial and sunny summer.

The second stage in recovery now noted consists of the emergence into full view in various directions of the improved financial, trade and industrial statistics that were needed to justify the state of expectant public confidence in the period that went before and to stimulate an increase in actual business activity in the period to follow.

### GOLD TO AMERICA

AMONG the foremost statistical factors of improvement is that relating to gold. The loss of gold through foreign withdrawals was one of the chief causes of public fear and lack of confidence in the financial and banking situation. The firm establishment during the past month of a heavy return flow on good economic grounds, as was to be expected, has been one of the major influences in the opposite direction. By the end of last June America had suffered a contraction of over a billion dollars of her monetary gold stock, or 22 per cent, in ten months. The losses in May and June alone were $475,000,000 and public doubt was rife as to whether the heroic measures taken to keep the United States on the gold standard were going to succeed. Then came the sudden end of withdrawals by foreign interests as their gold credits here became depleted and worldwide doubts as to the financial solidity of America abated. Re-investments in American securities began. During July the United States monetary gold stock rose by $55,000,000. During August it rose another $112,000,000. During September up to the date of this review it was mounting at even a greater rate.

If a particular event, or a specific change in major statistics is to be sought as the decisive turning point in the 1929-32 depression, this gold episode now appears to be the most clearly defined. Other important statistical changes have followed it in rapid succession.

Quoted values for stocks on the New York Stock Exchange, which rose in the aggregate by nearly $5,000,000,000 during July, added another $7,000,000,000 during August, and were continuing to appreciate during the first week of September, although a normal reaction from a somewhat over rapid and long sustained advance was expected to eliminate some of the speculative excess in the movement. The economic importance of this improvement in stock prices goes far beyond the matter of profits for investors or speculators. It has national value in so far as it serves in revaluing on a sounder basis many assets that are a factor in the position of thousands of financial institutions and whose intrinsic worth had been nullified by abnormal market conditions.

Even more important in this connection was the similar trend in the bond market. The steady appreciation in values here over many weeks had carried the index for a representative group of bonds from the year's low point of 57.57 to 81.18 at the time of this review, an advance of over 40 per cent, that put back billions of dollars into the portfolio of thousands of banks, insurance companies and other institutions in whose soundness the financial welfare of millions of people is involved.

In trade, commodity statistics also contributed evidence of a beginning of reconstruction of the storm wracked business structure from the ground up. A standard general commodity index, after having steadily declined for several years, turned upward in June and in a steadily sustained course through eleven weeks rose by more than 5 per cent. Among individual commodities scoring advances the most conspicuous was cotton, the great money crop of the South, whose rise added many millions to the public purchasing power of that section, even after a severe price reaction early in September aided in correcting an overdone speculative advance.

### ENCOURAGING SIGNALS

IN industrial lines, while not enough time since the beginning of visible recoveries here had elapsed to establish trends, there appeared during the first week in September a number of reports of specific improvements. Building contracts awarded in August, as in July, were reported as showing a sizable increase over the month before. For the period of the last three weeks in August electric power consumption for industrial purposes showed an increase. Some railroad managers reported moderate freight traffic increases. The first week in September there appeared a slight expansion in steel activities, the first inkling of improvement in this essential direction in many months. The same period saw a sharp decline in business failures in the standard reports.

These incidents, while not sufficient by themselves to

indicate a conclusive change in the direction of business, taken together appeared to have weight, especially in contrast with the unbroken deteriorations in all the fields to which they relate that the business world has been accustomed to for months, or even years.

In the figures relating to banking favorable trends seemed definitely to have become established. The average number of bank suspensions weekly in 1931 was 44. During the first seven months of 1932 it dropped to 30, while in recent weeks the reports showed but 12 to 15 bank closings each week.

Paralleling the restoration of public confidence in banking reflected by the subsidence of pressure against them, the current excess in hoarding shown in a comparison of the weekly figures of money in circulation for corresponding weeks in 1931 and 1932 dropped steadily over the period of the eight weeks through the opening week of September. On July 20 the money in circulation was $940,000,000 in excess of the figure a year before. This excess has been growing less each week, until on September 7 it was down to $633,000,000.

In respect to banking figures, some concern was frequently heard expressed over the failure of commercial loans to reverse their continued downward trend and register the expansion that was deemed the essential barometric indication of an expansion in basic business activity. Some seemed to feel that so long as credit kept contracting it indicated that business was continuing to contract, but this is not necessarily true under existing circumstances. A large part of the contraction of credit constituted a favorable circumstance in that it represented the repayment of old loans by business men enabled to clean up their bank obligations as a result of improvement in their businesses. Furthermore, new loans are generally coming in on a much lower price level than prevailed when the old structure was created, and they therefore involve a smaller volume of credit. These factors mean that there will necessarily be some lag in the visible statistical expansion of bank credit based on the current expansion of business.

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"STOCK Growth and Discount Tables" by S. E. Guild (Financial Publishing Co.) presents a new series of tables for ascertaining the investment return obtainable from the common stock of growing companies, roughly comparable to bond yield tables. This is an interesting step forward in aiding the investor.

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WASHINGTON Correspondent of the Tokyo Hochi Shimbun, Mr. K. K. Kawakami presents, in "Japan Speaks on the Sino-Japanese Crisis" (Macmillan), an account of his country's line of action and an explanation of her ambitions and intentions, giving a basis for an understanding of one side of the Sino-Japanese problem.

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## CONVENTION CALENDAR

### (State Associations)

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| **Oct. 24-26** | **Robert Morris Associates, Niagara Falls, N. Y.** |
| **Nov. 3-4** | **Nebraska Bankers Association, Omaha, Neb.** |

### A. B. A. MEETINGS

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|---|---|
| **Oct. 3-7** | **A.B.A. Convention, Los Angeles.** |
| **Nov. 17-18** | **8th Mid-Continent Trust Conference, Milwaukee.** |

### 1933 CONVENTIONS

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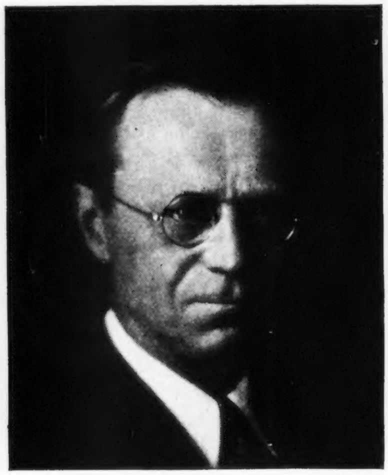
|---|---|
| **May 23-24** | **Oklahoma Bankers Association, Oklahoma City.** |
| **June 1-2** | **South Dakota Bankers Association, Mitchell.** |
| **June 5-6** | **Illinois Bankers Association, Chicago.** |
| **June 19-21** | **Iowa Bankers Association.** |
| **June 20-22** | **Wisconsin Bankers Association, Green Lake, Wis.** |

# NEW STATE ASSOCIATION PRESIDENTS


HAYES, DETROIT

**T. M. BRISBINE** **FRED J. FIGGE** **JOHN C. HICKS**

**The South Dakota Bankers Association has elected Mr. Brisbine, cashier, Sanborn County Bank, Woonsocket, as its president for the coming year. The Iowa association elected as its new president Mr. Figge, president, Ossian State Bank, Ossian, Iowa. Mr. Hicks, president, St. Johns National Bank, St. Johns, Michigan, heads the association of his state**

## Events and Information Within the A. B. A.

### Pacific Coast Trust Conference

THE 10th regional Trust Conference of the Pacific Coast and Rocky Mountain States was held at Los Angeles, September 29 to October 1, under the auspices of the Trust Division, American Bankers Association with President Hennings of St. Louis as presiding officer.

Not only from the Far West but from every section of the country, trust men gathered to interchange ideas and experiences and discuss the many new problems brought about by changed conditions and new legislation. Able speakers addressed the conference on investments, new business problems, legal subjects and supervision, and out of these studies and the animated discussion which followed, sound new ideas and plans resulted of far-reaching benefit to every one engaged in fiduciary work.

### Commerce and Marine Commission's New Book on Railroads Now Ready

FOR many months the members of the Commerce and Marine Commission of the American Bankers Association have been engaged in a thorough study of the railroad problem, particularly those phases of public concern which

**A. R. McDERMOTT** TIPPET

**The Montana Bankers Association has elected Mr. McDermott as its new president. Mr. McDermott is vice-president of the Montana National Bank of Billings, Montana**

center around land grants, capital and labor, competition between steam and electricity, public relations, present-day competition with buses and trucks, and the importance of the rate structure in rehabilitating the railroads' financial fabric.

The study was conducted for the particular guidance of bankers and its findings are consolidated in book form under the title "Railroad Transportation in the United States". This book is now ready for distribution and will be supplied at $2.50 a copy upon request.

### New 800-Page Book on Bank Management

EVERY banker is familiar with the results of the eight Bank Management Conferences conducted in recent years by the American Bankers Association.

All this invaluable material has now been assembled into an 800-page book, substantially bound in buckram, and fully indexed. This book constitutes a most complete and up-to-date manual of modern practice upon such important matters as loans and investments, cost analysis, secondary reserves, interest payments, service charges, clearing-house cooperation, director responsibility, personnel problems, etc.

This volume can be secured at cost of printing and binding—$5.40 postpaid—from the Bank Management Commission of the American Bankers Association.

### Financial Library Exhibit

AN information bureau and exhibit of the latest financial books of the year are maintained at the American Bankers Association Convention in Los Angeles by the Special Libraries Association.

Of particular interest are charts and reading lists on present economic questions. The most important books on banking, finance and economics as well as the standard statistical services are available for the use of visiting bankers.

Experienced bank librarians are in charge. All bankers are cordially invited.

## Recently

(CONTINUED FROM PAGE 11)

having achieved moderate success though apparently at the cost of considerable bitterness.

The British Treasury announced on August 15 that 88 per cent of the 5 per cent War Loan (totaling $2,086,977,-258) had been converted. Repayment was demanded on only £48,000,000. France is expected, according to Paris advices of August 30, to undertake its largest conversion operation this fall, an operation involving fr. 80,000,000,-000 (about $4,000,000,000). On September 2, the Mexican cabinet resigned, and President Rubio announced that he would seek an "indefinite leave of absence". General Abelardo Rodriguez was named Provisional President the following day. Tension between Japan and the principal Occidental nations was increased during the month by apparently well founded rumors that the report of the Lytton Commission, named by the League of Nations to investigate Japanese activities in Manchuria, would contain a sweeping condemnation of Japan's policies. Count Uchida warned the Lytton Commission that Japan would never consent to giving China authority over Manchuria.

### AT HOME

FARMERS in the neighborhood of Sioux City, Ia., undertook to prevent the marketing of farm products at prevailing "ruinous" price levels by a thirty-day blockade of the highways. The movement spread to other parts of Iowa and Wisconsin, but showed signs of waning following the shooting of fourteen pickets in a clash with sheriffs' deputies in Cherokee, Ia., and the collapse of plans for a mass meeting at the Cherokee County Fair, on August 31.

Threat of a new bonus bill at the next session of Congress was increased by agitation for immediate cash payment by state conventions of the American Legion. People in New England on August 31 witnessed the moon cross the face of the sun on the afternoon of August 31, in the last eclipse of the kind that will be seen here until 1963. Mayor Walker announced his resignation on September 1, protesting against the "unfairness" of the removal proceedings. Joseph V. McKee, president of the Board of Aldermen, automatically succeeded Walker, and New York City bonds rose sharply in response to his business-like and aggressive attitude toward the city's financial problems.

## Thrift Trusts

(CONTINUED FROM PAGE 32)

and appropriate papers; to collect principal; to sue and defend; to invest in such securities as shall be approved by the company.

The trust is in the nature of a fund to guarantee the company's redemption at face value and interest of its 7 per cent certificates. So long as the company is meeting its obligations on the certificates, the trust is largely inactive, except in so far as the trustee must make and change investments on the approval of the company. The moment there is a default, the trustee gets busy and makes the payment of income direct to the certificate holders and proceeds to liquidate the trust property for their benefit.

The only criticism of this plan of thrift trust that might be made is that investments and reinvestments are subject to the approval of the company. The better plan, we think, would be to have the trustee make and change investments on its own responsibility and thus completely dissociate the company from the administration of the trust.

The thrift trust has distinct and attractive advantages over other thrift plans. In the first place, the 7 per cent income on the certificates is attractive and should be an inducement to employees to save and invest in the certificates. In the second place, the fact that the trust properties equal at all time the amount of outstanding certificates gives added assurance that the certificates will be paid or redeemed at all events at face value and interest. In the third place, there is no confusion in the minds of the employees about sharing in the profits of the company and in receiving an assured return from their savings.

The confusion in the minds of employees between thrift and profit-sharing plans has, no doubt, dampened their ardor for all such plans. Profit-sharing trusts offer many attractive features to employees. But they should be made to understand that it is profit-sharing and not return-guaranteeing, that if there are no profits there will be no sharing. So, when a company sets up a thrift plan and under the plan makes the payments out of current earnings or invests the funds in the securities of the company and there are no earnings and no dividends, the employees participating in the thrift plan feel that they have been misled. For this reason, it is highly desirable to keep all thrift plans dissociated from profit-sharing and stock-purchase plans and, as in the case of the thrift trust described above, to have a competent, impartial trustee to give investment management to the fund and in the event of default by the company to step in and administer for the benefit of the participants.

## Should the Rule Against Perpetuities Be Extended?

(CONTINUED FROM PAGE 22)

ent capitalistic system is being widely criticized. Efforts are being made to saddle it with greater social burdens, such as part of the cost of compulsory unemployment insurance. Old age pensions have been adopted by several states and will be adopted by others. The certain result will be, even if some of these burdens are shifted, to diminish greatly the net profits which holders of capital will get. One of the large sources of state revenue—and perhaps in time of federal revenue also—will be the inheritance or transfer tax, since it is the hardest to escape and the easiest to collect. This tax is said to have been originated by the Emperor Augustus in the year 6 A. D., and exists in some form in every state in the Union except Nevada, so it is here to stay and probably will increase in amount.

Now, when property is handed on without trusts being established, the entire wealth of the nation can be taxed once in each generation; but when trusts to the limit of the Rule against Perpetuities are resorted to, this sum total of wealth is only taxed for transfer purposes perhaps once in two generations, or 50 per cent less than in the other case. Since the taxes on the intermediate life estates are relatively small, the net return to the taxing power can be fairly estimated to be 50 per cent less than in the first case. The modern state is being asked to do more and more, and all these additional services rendered cost more and more money, and the only way to get this needed money is by larger taxes on present sources of taxation or new taxes on other sources not now taxed. Any effort to extend the time limit of the rule will be construed as resulting in a further diminution of the returns from these transfer taxes. Since further lengthening of the Rule would automatically diminish the return of the states from this source of inheritance or transfer taxes and the pressure for tax money will be constant and probably increasing, efforts made to shorten the present rule will incite investigations of the present lengths now covered and will likely provoke resentments that may lead to successful efforts to shorten them.

## UNEMPLOYMENT

UNTIL our prevailing unemployment problem is solved with as much permanence as can reasonably be expected, it is going to hang like a thunder-cloud over the entire body politic, requiring ever larger expenditures, both public and private, to prevent extremely radical measures being widely advocated, and perhaps some being adopted.

Finally most people do not realize that this regular legal period really may cover a long expanse of time. Thus, a man may by his will tie up property until 21 years after the death of the longest liver of the group of his children, grandchildren and great-grandchildren who are alive at his own death; and if he has married early and has several children, this may postpone the final distribution of his fortune for nearly a century after he has gone. If he has no family of his own he can take as his measuring-stick 21 years after the death of the longest lived of the group living at his death of the children, grandchildren and great-grandchildren of some friend or relative who has a numerous progeny, and thus similarly get the benefit of nearly a century in holding his property intact.



## Par Collections

(CONTINUED FROM PAGE 53)

letters made by some banks were extortionate. Remittance was often made by exchange on impossible places, sometimes ultimately absorbing half the value of the original check. Earnings from this source were so large that they sometimes led to loose methods in other respects, and there are bankers who claim that many banking troubles in rural communities can be traced to the misuse of the exchange charge in other days. The par system ends such abuses.

Incidentally it may be added that the good faith of the Federal Reserve in the matter is attested by the fact that it costs the Reserve banks about $10,000,000 a year to maintain the system. It clears annually more than 900,000,000 checks without cost to the public.

Nevertheless, all this benefit arises from a free service given by the banks of the country which many institutions at the present time can ill afford. So long as deposits were large and business was flourishing, the cost of this service could be covered by earnings in other lines. The situation is especially onerous now for the small country bank.

## What Can Bankers Expect of the Next Congress?

(CONTINUED FROM PAGE 31)

All who favor revision think of it in terms of practical or selfish advantage to the United States. But in the main the purpose is as indicated above.

The issue keeps popping out. Prominent citizens and prominent groups speak up for prompt revision. They believe thereby they promote the cause of revision. But those practical politicians who are secretly favorable to revision say this: Most congressional candidates can't afford to say they favor revision, for this wins few votes and alienates many more. The election campaign needs a "devil," and a "foreign devil" would be a godsend to the demagogs. More passions can be stirred against revision than logical thought can be cultivated for it. So the practical politicians want to keep the issue quiet until after November.

It is my opinion that the debt payments will not be made in December. Whether there will be prompt extension of the moratorium by December 15, when payments are due, is not clear to me, from the standpoint of a Washington observer. I feel that somehow, some way, default will be avoided. The thing will have to be handled as an emergency proposition, and put across by agreement of leaders of both parties, as was done with the moratorium in June, 1931. I think it will turn out this way.

**Government Banking.** Many bankers ask how much further Congress will go in the next session toward putting the Government into the banking business. I don't know. It depends on the bankers.

I know the temper in Congress, both collectively and individually. It has been and will continue to be critical of bankers. But the spirit behind all the schemes for dispensing Government loans to those who ordinarily should borrow from banks has not been punitive.

There has been much scolding of bankers. In many cases it is doubtless based on faulty understanding. It is not generally realized by the public that the banker's prime job has been to protect his depositors' money, particularly during the past hectic year. Bad loans don't help the depositors or the community. The banker who will make loans against his better judgment, merely because of public sentiment, is doubtless not a good banker.

The Washington feeling is that from now on bankers must and probably will adopt policies of moderate liberality in lending. Blanket advice from above is worthless and ineffectual in specific application. Nevertheless Washington authorities are now putting steady pressure on bankers to lean toward liberality, in the belief that this will in itself represent good banking, assuming that some sort of credit turn for the better is now occurring.

If this is done, there will be a minimum of new legislation to put the Government into the banking business.

The actual volume of loans through Government institutions may seem large, and may seem like rapid progress toward state socialism in the realm of credit. The phenomenon is impressive, however, for the variety rather than the volume. The total amount of loans is not nearly so great as in a socialistic state such as Germany, where the government owns large blocks of equities in leading banks and industrials.

The variety is indicated by the following rough record of loans legalized in the last session of Congress:

To banks, railroads, etc., under the original R.F.C. act. To states for relief,—the beginning of a dole if we don't watch out. To local or state governments for self-liquidating public works. To private corporations for self-liquidating public works. To promote housing projects and slum reconstruction. To limited-dividend corporations to promote foreign projects. To groups of banks, through Federal Reserve banks, under the Glass-Steagall act; little of this has been done. To single banks on paper not ordinarily eligible for rediscount under the Glass-Steagall act; little of this has been done. To commercial borrowers direct by Reserve banks; this will not be used much, but is a sort of "persuasive club" over the banks, to be used, perhaps, by the regional committees of bankers and industrialists (of whom, by the way, much is expected in the next few months). To finance exports, particularly of agricultural products. To aid in the prompt liquidation of closed banks. To finance home mortgage loans, mainly to building and loans, incidentally to savings banks, and quite incidentally and theoretically to home owners direct; this is to be done through the new Home Loan System. To establish and operate agricultural credit corporations, particularly for live stock. To provide production loans for farmers. To furnish more capital for Federal Land Banks. There are others.

**R.F.C.** This is as near to a financial dictatorship as this country has ever been. To a small group of men is given tremendous power. The administration has been good. Politics play small part. Big problems are ahead. The President himself is personally directing general policies.

**Debts.** It is still an open question whether the debt burden in the United States is so heavy that it can not be paid. Some think that much liquidation is yet to be done. Some think that inflation will ultimately be forced.

The Washington view, perhaps, is something like this: Downward adjustment of many debts has not been finished, and will not be completed for several years. Some further debt adjustment, plus some further credit expansion (not going to the point of outright "inflation") will ultimately restore equilibrium.

Public debts are enormous. If they are not to be repudiated on a large scale, then there must be higher taxes. Despite the cry for lower taxes, the tendency over a period of years probably will be toward bigger tax levies. This applies particularly to Federal taxes. Governmental economies, both Federal, state and local, can be made, but a large share of taxes goes to pay debts for past extravagances, and these debts can not easily be shaken off or trimmed.

Outpourings of Government money

are not a remedy for anything, and are not so intended. They represent merely a bridge across the chasm, two thirds of the way toward the bottom. They are meant to save the ordeal of the last final descent and the subsequent climb. If the ascent of business develops within the next six months, the bridge will be long enough and strong enough to hold. If not, then the bridge will fall and the crash may be great. The Washington view is that it will hold, but it is a problem of guessing the time of revival.

Washington for a year has been engaged in a series of economic experiments. Precedents have been few. The sure knowledge of results has been meager. It has been the muddling of a democracy. To some it has seemed that a dictatorial form of government would have been better. This assumes, however, that there were potential dictators who would have known precisely what to do about everything, and such an assumption is not wholly realistic.

## Federal Competition

(CONTINUED FROM PAGE 25)

of Congress was that the Intermediate Banks would handle six-months to three-year paper. In actual practice most of their business is done on from six-months to one-year paper. Much, perhaps most, of this paper is rediscountable at the Federal Reserve and in fact much of it is so rediscounted at times. This paper could be handled by commercial banks in exactly the same way without material impairment of liquidity. How close a relation this business of agricultural credit companies and the Intermediate Credit Banks has with the business of commercial banks is indicated by the fact that the increase in the volume of these loans last year over previous years came largely in those districts which have been deprived of adequate banking facilities by suspensions or where the decrease in local deposits led to a restriction in the possible volume of bank loans. Government aid and encouragement for these agricultural credit and loan companies, accordingly, is a direct aid to competitors of the country banking system.

### EFFECT ON COMMERCIAL BANKS

THE relations of these agricultural credit concerns and the Intermediate Credit Banks to commercial banks have been greatly complicated by the emergency loans granted agriculture by the Government in the past three years. The emergency phase of agricultural credits was introduced with the organization of the Federal Farm Board. Aside from its active stabilization operations in wheat and cotton the board has loaned money to farm cooperatives, agricultural loan companies and similar organizations on commodities to insure "orderly" marketing. It has also loaned money to farm cooperatives and other farmer organizations to improve marketing plants, to encourage the organization of cooperatives and, finally, to aid in the organization of agricultural credit and live stock loan companies. All of these loans on commodities have been placed through the Intermediate Credit Banks and almost always in connection with loans granted by the latter,—sometimes, indeed, in connection with primary loans granted by commercial banks.

The result of this combination has been a strengthening of the community of interest between the agricultural credit and live stock loan companies and the Government's credit agencies to the prejudice of the interest of the commercial banks. Since the volume of the board's loans has approximated $350,000,000 the effect of this close community of interest on commercial banks has been considerable. It should be added, perhaps, that in the board's cotton and wheat stabilization operations it has borrowed heavily from commercial banks,—$131,000,000 at one time,

though this was borrowed almost entirely from large city banks.

Direct Government loans to agriculture through the Secretary of Agriculture also have affected country banking. Under the Reconstruction Finance Corporation Act $200,000,000 is being loaned directly to farmers on whatever terms the Department of Agriculture may approve, a first lien on growing crops or crops to be grown being considered sufficient security under the law. There are also other direct Government loans,—seed loans authorized from year to year for several years; special loans for flood sufferers; for sufferers from the drought of two years ago; for hurricane victims; to start cooperative associations. The Secretary of Agriculture has a $10,000,000 revolving fund to lend to individuals to organize agricultural credit and live stock loan companies. Almost anything Congress could think of to give assistance to the farmer has received its approval and an appropriation.

It is a fair assumption, perhaps, that these agricultural credit associations and live stock loan companies have a temporary mission to perform in the present emergency in agriculture and credit conditions. Frankly, this mission is to meet the credit needs of agriculture in many parts of the country where the country banking facilities have been curtailed. As permanent institutions, however, the case for them is not so strong. In the long run they can offer no material advantage over country banks while the business they do is large enough to threaten seriously the earnings and therefore the strength of the country banking system.

> Giving various Government agencies credit for their utmost usefulness it is evident that after the mass of direct Government aid and emergency financing has been cleared away the substantial, permanent,—one might almost say, legitimate,—short term financing of the farmer must come from the commercial banks on which he has depended with satisfactory results in the past. Hence, even from the farmer's standpoint, it is essential that the operation of these various Government or semi-Government institutions shall in no way weaken the country banking structure.

It can hardly be claimed that so far this essential requirement has been met. Government development of the agricultural credit concerns and live stock loan companies and the practical incorporation of the Intermediate Credit Banks in the Federal Reserve are developing such competition for country banks as to threaten retarding of their recovery from depression conditions and to interfere seriously with their future welfare. The more business these institutions take from the country banks the weaker the general agricultural credit structure becomes. The Federal Reserve is the great fount of agricultural as well as all other banking credit and the closer the agricultural credit system can be assimilated to the Reserve System the sounder will be the basis of agricultural credit. This close assimilation can best be accomplished through the medium of country member banks.

CERTAIN long-time objectives in mechanisms for the better adjustment of business are defined in "Business Looks at the Unforeseen" by Wallace Brett Donham (McGraw-Hill).

ANALYZING the march of business and methods used both here and abroad, "Economic Rhythm" by Ernest Wagemann (McGraw-Hill), offers a new technique of forecasting through more comprehensive indicators.

## Is This Inflation?

(CONTINUED FROM PAGE 23)

they are likely to welcome a mild inflation which would tend to restore the market values of their securities and to thaw out the banks' frozen assets. Though the members of the fourth and fifth groups will probably for some time remain in the conservative class, many of them will shift a portion of their funds into equity securities, especially when it becomes obvious that inflation is on its way. Moreover, numerous owners of insurance policies have borrowed on them and will not be adverse to some degree of inflation.

Debtors are always eager for a rise in the price level and are usually ardent advocates of inflation. This sentiment is especially noticeable at present, because many farmers for instance bought land at extremely high prices with little chance of appreciation and now find themselves unable to meet interest and principal on account of the terrific fall in the prices of farm products. This sentiment would also be shared by business men owing on bonds and mortgages, though large industrial companies as a whole find themselves relatively free of debts.

State and local property taxes are practically confiscatory to the landowner. The indebtedness of the local governments has been growing constantly during the post war period and the Federal bond issues have also recently increased. Government officials will naturally favor some respectable way of scaling down these debts, especially if the allied war debts should prove uncollectible. The cheapening of the dollar would provide such a method of adjustment.

Numerous business corporations which find themselves with overexpanded facilities, in the face of a diminished output and little or no reduction in rentals, interest on investment, rates of obsolescence and depreciation, marketing expenses, and overhead charges, will logically favor some way of increasing prices so as to widen the margin between their costs and selling price.

Among the suffering industries, silver occupies an important position on account of its peculiar monetary status. During the past year this metal reached the lowest price on record. Our figures go back to 1492. Many authorities argue that countries on the silver standard find themselves unable to purchase as much as before from the gold standard countries. They favor increasing the price of silver by stimulating its monetary use.

### THE COMMODITY THAT THRIVES

PERHAPS the only commodity which thrives during a period of low or falling prices is gold, whose price remains constant at $20.67 per fine ounce. This industry has no marketing or advertising expenses. The market is unlimited. The only common stocks which were higher in the bear market of 1932 than in the 1929 boom are those of the gold mining companies. An inflation movement would harm this industry, since its cost of operation would be increased with no rise in the selling price of its product.

Bryan polled almost as many popular votes as McKinley and would probably have won the election had not prices begun to rise in the late summer of 1896. At that time the railroads and the banks were the objects of popular distrust and hatred. Many people today would favor inflation as a means of curbing the public utilities, whose rates vary comparatively little and show an inertia in periods of rising as well as of falling prices. Inflation would place the burden upon the utilities to show that their rates are too low rather than upon the public to prove that they are too high as at the present time.

Farm prices were low during the nineties, but taxes were also at a commensurate level. Moreover, the Federal

Government was practically free of debt in 1890. If inflationist sentiment was strong in the Nineties with low farm prices but low taxes and comparatively small government indebtedness, how much greater is it now with farm prices back near the 1890 level but taxes and government debts at or near the 20th century high point?

Will Midas get his wish? Will he be able to control it?

Advocates of an increase in the amount of money or of the supply of credit are careful to state that they merely want prices to return to some previous level, such as that of 1926, and to remain at that level. They often call the process "reflation."

If business has once had the taste of a return to prices of 1926 it will not be satisfied to stop at that point. If we once give ourselves the stimulant of more money the effect will be so delightful that each dose will give rise to a demand for another. The history of money shows that each issue of paper notes was always to be the last, but when one batch came there was always a demand and a need for the next.

John Law intended to keep his bank notes within limit. After the Revolution, only some 80 years after the unfortunate experience with Law, the French issued assignats based on the confiscated lands of the church and nobility, with the understanding, however, that the quantity was to be limited strictly. But the populace was so delighted at getting something for nothing that France again entered into the throes of inflation. During the Civil War the United States issued greenbacks in greater amounts than had been planned. After the war a long political struggle ensued as to the disposal of these government notes. Some wanted them cancelled; others wished the quantity increased. An attempt unduly to expand their quantity was stopped only by President Grant's veto. The greenbacks have always been a source of danger, ambitious politicians frequently picking this means as a way of expanding the currency.

Depression should be a time of readjustment. Farmers have cultivated land which should never have been utilized. Industrialists have built plants which should never have been constructed. Speculators have developed subdivisions which should never have been inaugurated. Corporations have issued stocks and bonds which should never have seen the light of day. Many of these will be unable or unwilling to make the necessary adjustments in equipment, costs, inventories, selling prices, business methods, revisions of the capital structure, which are needed to conduct business profitably at the present level. These men will welcome an inflation movement as an easy and painless way of avoiding the penalty for the excesses of the past.

Under any type of managed currency, reflation, or by whatever term it is described, inflation is likely to result because the Government and Congress will be harassed by too many back seat drivers, who will know better than the official driver what should be done. Such back seat drivers are especially numerous at the present time.

Money and credit are not the gasoline

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The theory of inflation is that the Government will watch the price level, and when it becomes high enough will call a halt, or when it falls will give another injection. If the Government officials were enclosed in a glass cage, away from all the whims and cross currents of a fickle and powerful democracy, there would be little danger. But millions of voters rejoice at the prospect of inflation.

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of industry; they are rather the lubricator. We do not start a balky horse by pushing on the lines. The horse needs an incentive—perhaps confidence, perhaps the whip. The modern industrial machine needs, not more money and credit, but rather confidence and the whip. It needs adjustment and not inflation. When further adjustments in the form of wage cuts especially in the trades, reduction of costs, the lowering of selling prices of finished products, the dismantling or scrapping of unnecessary industrial and agricultural land and equipment, the scaling down of stocks and bonds and mortgages by reorganization and mutual agreement, the lessening of tax burdens through government economy, the settlement of international difficulties, have been made the time will then be ripe for recovery. When such recovery occurs, however, the machinery for monetary and credit expansion set up by Congress is likely to "catch", and unless we are carefully on our guard, we shall be the victims again of uncontrolled expansion and inflation with all its attendant evils.

In perhaps no other depression has business been so unwilling to make the adjustments necessary for recovery. In 1930 we refused to recognize the hard times, in 1931 we attempted to revive the patient by "buy now" and "keep wages up" propaganda, in 1932 we have been building up the machinery for credit and monetary expansion. Historians will refer to this as the hypodermic depression, when, instead of removing the cancerous growth, economic surgeons have either lulled the patient into a dull contentment or have forced him by stimulants to simulate a recovery.

Will King Midas ultimately be forced to bathe in the waters of the Pactolus?

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# Is Banking a Profession?

By THOMAS C. HENNINGS

**Serving as President of the Trust Division of the American Bankers Association during the 1931-32 term, Judge Hennings is vice-president of the Mercantile-Commerce Bank and Trust Company of St. Louis**

MUCH has been said in recent years by bankers interested in their vocation to the effect that banking has developed into a profession.

From its inception banking has been considered a high grade, intelligent business, conducted by capitalists, traders, merchants, lawyers, and others of powerful minds and sound business judgment—men who had amassed wealth in trade, money changing and commerce; men who evolved their calling into the great, powerful, dignified business of finance, which now controls the movement of commerce, the development of industry, the welfare of peoples and the progress of civilization throughout the world. The confidence placed in the men who hold the world's purse strings, their sound integrity, their reputation for fair dealing and their high purpose, have developed the business of banking to the high plane on which it rests today.

Tradition has placed at the head of the learned professions men who have been admitted by a formal proceeding into Law, Ministry and Medicine, a member of any one of which groups must have followed a definite course of study, must have secured a degree, and then must have been licensed by an official body before he can practice. But under the laws of the different states today, anyone can go into the banking business without any previous course of instruction, without any examination, and without the formality of a license from anybody. Under such circumstances, is it wise to claim entry for the average banker into a profession? Do the intelligent business men who are bankers want to occupy a position of less dignity than the members of the great learned professions? Is it not better to occupy by common consent the leadership of all business, that of finance—a business to which all other businesses and all the professions must defer?

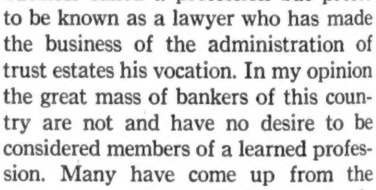
Members of a profession, by common consent, are not supposed to advertise directly or indirectly, to solicit business, or to call the attention of the public to their qualifications and the advantages of engaging their services. Hardly any banker would care to be circumscribed by the arbitrary restrictions surrounding the professions.

In an attempt to develop banking into a profession, where shall the line be drawn? Precisely at which stage does the chrysalis become the butterfly? We would not include a person in charge of a one-man bank of small capital in a country town, even though he might be designated president or cashier; nor can all employees of banks be included. If so, shall there be a distinction between senior and junior officers? And with some institutions having four or five officers seemingly senior to the president, one is tempted to ask who are the junior officers of a bank? Shall we include all who have titles, or only those who hold certificates from the A. I. B. or a degree from a business school?

We must keep in mind the fact that what the professional man has to sell necessarily involves mystery, and the personal equation is an essential element. The client has no means of knowing whether he is well served or not when he pays for advice nor can he readily appraise the value of the service rendered. Something intangible is given, with an expected, tangible result; but in banking the customer as a rule is a competent judge of the quality of the service or accommodation for which he is charged.

If banking is to be a profession, shall we consider it as one of *the* professions, or just another profession? And if so, are bankers generally learned?

It would be surprising to find a single lawyer who could not explain the rule in Shelly's case, the rule against perpetuities or the decision in the Dartmouth College case. So why pretend? As a lawyer who takes pride in the fact that he has to some extent assisted in the development of the trust business, I have no desire to have my business called a profession but prefer to be known as a lawyer who has made the business of the administration of trust estates his vocation. In my opinion the great mass of bankers of this country are not and have no desire to be considered members of a learned profession. Many have come up from the grass roots, are practical bankers, financiers, and business men, are the leaders of public thought and business in their communities, are proud of their vocation and would prefer to be known now and in the future as business men.



## The Difference Between Politics and Common Sense

(CONTINUED FROM PAGE 26)

or matters directly related thereto. With the financial situation of all Europe depending very largely upon these excluded matters how far can the conference go in successful consideration of those subjects that are left?

### ON AND OFF GOLD

THEN there is the matter of the gold standard. At the present time something like 35 nations are either off the gold standard or are so restricting international exchange operations as to be practically off the standard. The principal group among these nations, the key group, is Great Britain and its dominions. At the recent Imperial Economic Conference at Ottawa the subject was considered,—behind the scenes. Great Britain was unwilling to pledge itself to a return of the pound sterling to par in the immediate future, believing that its present policy is necessary for its own financial, industrial and commercial well being. It was found that no agreement among or with the dominions was possible; hence there was no formal consideration and no action. For similar reasons there was no formal consideration and no action as to silver in spite of the great interest India, Canada and Australia have in the rehabilitation of the metal. What an international conference can do as to the gold standard or the improvement in the position of silver, where some of the chief parties in interest fail to agree in a family council, is certainly problematical.

### WHO WILL LEND?

THERE must be a renewal of international financing if there is to be a restoration of the international financial equilibrium. Half of Europe and all of Latin America must have loans if normal international payments, commercial and otherwise, are to be restored. But who is to lend the money and when?

With domestic credits restricted to a disastrous minimum what possible chance is there that American or other investors will place their funds abroad under present conditions? After the experience of investors in foreign securities in the past three years it is probable that international financing will be the last step taken in world financial regeneration. Doubtless it would be better otherwise but the fact might as well be faced frankly. Pious wishes of international conferences are likely to have no effect whatever upon the situation.

There is no occasion for emphasizing the pessimistic side of conference prospects but there is no profit in over-optimism. International conferences have their value but that value is usually limited and under present world economic policies and national politics their usefulness is further restricted. No doubt the coming conference will be able to agree on certain general principles which may aid the world in economic recovery but the application of these principles will be slow and difficult because of domestic politics and the narrow views of the average electorate. In time these principles will be adopted for the simple reason that without them world recovery will be impossible. In the meanwhile it is well not to expect too much from international action.

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THOMAS F. LEE, who has had 29 years' intimate contact with Latin America and its people, has written "Latin-American Problems" (Brewer, Warren & Putnam), in which he discusses not only the fundamental differences between the Latin-American and the Anglo-American, but also delves into their special problems, conditions and affairs.

# How One Country Bank Sells Its Varied Services as a Unit

By G. EDWIN HEMING

TO find a popular appeal upon which to base our advertising program was one of our tasks a few months ago. For years we had advertised checking accounts, interest accounts, safe deposit boxes, Christmas Club, wills and life insurance trusts—in fact, every department or service that we rendered. But we had always sold them as units; that is, each service was sold or advertised at different times as a single and distinct item of service. If we had been in the book business, it was as if we had been selling single volumes instead of sets of books. Now, why not try that idea in selling bank service?

In other words, we decided to combine all our services into a well thought out and unified plan and to sell the bank as a single unit—a complete financial plan! And so we formulated a plan not alone from the banker's view, but from the depositors' viewpoint as well. In fact, to strike a popular appeal, we decided to keep the depositors' view foremost in our mind.

Now the question of forced economy by reason of wage and salary cuts was commencing to be a topic of interest. The balancing of the family budget became as important to the individual as the balancing of the Federal budget became to the nation. Here was the starting point for our financial plan. So we included in our booklet Step No. One—

### "DETERMINE YOUR INCOME"

THEN followed a page that simply invited your pencil. Blanks to be filled in and totaled. "Income from salary and wages," read the first line. "'Interest on Bank Account" came next, closely followed by "Interest on Bonds," "Income from Rents," "Interest on Mortgages Owned," "Dividends on Stocks," and "Income from Other Sources." These various items were included so that it could be made to apply to almost any individual case. Then to Step No. Two—

### "DETERMINE YOUR OUTGO"

THIS, too, was simple to fill in, spaces being provided for the annual and

**Mr. Heming is assistant cashier of the First National Bank and Trust Company of Freeport, New York**

monthly tabulation of such expenses as food, shelter, clothing, operating, insurance, investment and development. By using these few classifications, it becomes apparent that the budget part of our program is quite simple, whereas most budget plans are burdensome because of their complex nature. For practical and explanatory purposes, however, we divided some of the main subdivisions into several parts so that this tabulation of expenditures would be more readily understood by the bank patron. Shelter was divided into rent—or if the home is owned: taxes, interest on mortgage, and upkeep and repairs. Operating was broken up into the following parts: heat, light, laundry, telephone, income taxes, replacement of equipment and servants. Development included: automobile, amusement, vacation, entertaining, education, doctor, and club dues. Then to Step No. Three:

### INCOME TABLE

HERE we placed a standard table which revealed various incomes and under each one a percentage for each of the major seven subdivisions. A notation explained how these percentages could be modified to fit the individual case. The bank patron was told to compare his actual expenses, as shown under Step No. Two, with the tables in Step No. Three, to see how his case compared. This often revealed that expenditures under one subdivision were out of line with normal expenditures and suggested to the patron where he should cut down his disbursements.

### THE CHECKING ACCOUNT

STEP No. Four followed, and here is where the bank entered into the plan suggested, that an account be opened in our checking department and that all income be recorded therein.

### MONTHLY TOTALS

STEP No. Five provided a record page for posting all expenditures and for ac-

cumulating monthly totals. This did not mean that one must draw a check for every little item, but that on the stub of one check several items could be grouped.

### COMPARISON WITH BUDGET

STEP No. Six suggested that these expenditures be compared each month with the budget plan as adopted, thus checking the progress and success of the system.

Now if we had stopped here, we would have sold but one service of the bank, and would not have formulated a complete financial plan for our patrons. So we continued with Step No. Seven—

### AN INVESTMENT PROGRAM

QUOTING from our booklet this investment program is as follows: "Open an interest account with the First National Bank and Trust Company of Freeport, New York, and transfer the designated sum marked 'Investment' in the budget adopted under Step No. Three, the first day of each month. (When this sum equals six months' income, excess amounts may be invested under the direction of your banker.)"

### INSURANCE TRUST

STEP No. Eight refers to the individual's insurance program. The depositor was told, "Take out as much insurance as shown under that head in the budget adopted under Step No. Three. If the Total Insurance equals $20,000 or more, consult with the trust officer of this bank regarding the advantages of creating a life insurance trust agreement which will make sure your insurance will do what you mean it to do. Write for our free folder "Your Wife and Your Insurance."

### MAKING A WILL

STEP No. Nine directed that the depositor, having placed his running affairs on a systematic basis, should now draw a will. It admonished, "If you do not, the law will distribute your estate according to a set plan which may not be in accord with your wishes. Send for free folder 'X' which this bank will send you at once. This is another helpful working form that will enable you to prepare the necessary information for your lawyer so that he may draft your will in legal form."

### A SAFE DEPOSIT BOX

AS a concluding step, No. Ten suggested that deeds, insurance policy, will, life insurance trust agreement, mortgages, keepsakes, etc., be placed in a safe deposit box at the bank. Our rates were then quoted, and the safety from fire and theft and easy accessibility were stressed to show the importance of this bank service.

A closing word at the end of the booklet says, "At this point your complete financial plan should be in good working form, but if you have some particular problem that remains unsolved, bring it in and let us review it. It may be that in our experience of more than a quarter of a century we

have solved a similar problem and we can be of service to you in your case." A self-addressed, no-postage-required card was included so that signature cards and booklets mentioned in the plan might be requested by mail by those interested in these services.

Thus we provided a plan for our patrons which, if adopted by those receiving it, would require the use of practically all our services. It emphasized the important part that the bank plays in each individual's financial life and revealed our willingness to render real service to customers by development and distribution of the plan in so convenient a form.

### ADVERTISING AND PUBLICITY

WE did not, however, mail these to all depositors, but advertised the plan in the local newspaper, in our house organ and in the bank lobby. We have had many requests and a number of favorable comments from patrons. Nearly a third of our first printing was exhausted by actual requests for the booklet and plan. The local daily newspaper made it the subject of an editorial from which the following is quoted: "The complete financial plan contains a family budget proposal that should be especially interesting to the people of the South Shore where so many heads of families are employed on a salary basis and thus have a fixed income." And after a detailed account of the various features, the article concludes, "this budget plan is so easy to follow that it should encourage many persons to become budgeteers."

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## The Public Relations of a Small Bank

(CONTINUED FROM PAGE 70)

about our bank in the minds and mouths of responsible men whose business brings them into contact with the public. As a result we recommended at an annual meeting that our shareholders elect a shareholders' advisory committee to serve as a contact group between the bank and the public. This was done. There are seven members, selected from among the younger and more aggressive men of the community. The size of their stockholdings is unimportant.

This committee has a dinner meeting with the officers and some of the directors once a month, or oftener if there is any occasion. At each meeting the officers explain in detail some major phase of bank operation. At one meeting we considered the investment list and the ratings of our bonds. At another we discussed the principles of loaning and the relationship of these principles to liquidity. One at a time, we are getting over these subjects rather exhaustively. Not infrequently after such a meeting even a director is heard to remark, "I never knew a tenth of all that."

Likewise we began in May, 1931, a series of letters to all our shareholders on pertinent subjects. Confidence in small banks in this section was none too strong. We believed that anything we might do to educate the stockholders would help to maintain confidence in our institution, as well as to simplify our dealings with them as customers. The first few letters were so well received that we broadened the mailing list to include the customers, and sent them some of the earlier letters revised.

### "TIMELY TALKS ON BANKING"

THE new series we headed "Timely Talks on Banking." They told, in simple form, the relationship between liquidity and soundness; the importance of the character of resources as contrasted with volume of deposits; and so on. Soon, it was not unusual to overhear on the street snatches of conversation about just such subjects—and to recognize phrases from our letters a few weeks earlier.

All these methods of education have made our community a group of people who know a good deal more about banking than is usual. The small, most intensively educated, group includes the officers and directors. Next comes the shareholders' advisory committee. The circle beyond is composed of our shareholders. And then comes the largest group of all, our customers. Within each group may be found individuals whose knowledge exceeds that of their fellows, usually because of personal conversations at the bank which have equipped them even better.

This education permits customers and shareholders to serve as centers of information. They can now talk intelligently when someone brings up a question of banking, and they can dispel much misinformation. Moreover, with all these folks spreading the gospel of sound banking, we do not have to do so much talking. We can let the other fellow do part of the work for us.

Now is the right time to educate people on these points. They have taken for granted for years the existence of banks as safe places to keep money.

The happenings of the past two years, however, have shaken their confidence somewhat, and have made them responsive to any presentation of the relationship between depositor and bank, and between borrower and bank. They are aggressively interested, their minds are open to the facts. And we need only keep in mind that in educating we must tell the facts in simple terms, in parables if you please, which bring home the fact that when a bank adopts a policy it is because of the bank's responsibility to its customers.

In most communities it has for many years been true that the most conservative bank was the most unpopular. Now, any banker can point from his own observation or experience to a dozen cities where the sentiment has shifted, and where the bank which has always been talked about as hard-boiled is now on the crest of the wave. The banker who achieved conservatism in the management of his institution now has the opportunity to win popularity along with it.

#### PUBLISHED STATEMENTS

IT would be possible to elaborate here to far greater length without repetition. For instance, we might well consider the need for published statements in a form that will give the public the facts without merely adhering to the time-honored form required by public authorities. Outstanding among these facts that the public is ethically entitled to, but which it hardly ever finds on a printed statement, are the volume of public funds and the volume of hypothecated assets securing these funds. Every banker knows that if 15 per cent of his total deposits, for example, are public money and to secure these he has hypothecated Government bonds in the same amount, he has greatly decreased the liquidity of the resources behind his general deposits, leaving for the deposits assets of inferior quality in decreased volume. But until public authorities require this to be carried on a bank's statement, no single bank can be expected to display the information and thus exhibit a weakness which would not show in the statements of competitors.

Another need that exists if we are to strengthen bank management is a closer tie between the examining authorities and the directors by some means more frequent and more direct than the periodical reports of examination. We should welcome, for instance, a bulletin from the Comptroller and from the state auditor which would be sent each month to every director. In most instances this would be taken more seriously than is similar information coming from the bank officers. And if such a bulletin ever comes to the directors of our bank, it is my belief that we would request each one of them to turn in his copy at the directors' meeting, carrying his signed certification that he has read and duly digested it.

## Warehouse Receipts

(CONTINUED FROM PAGE 27)

strument it may be interesting to note strides being made in that branch of the warehouse business known as field warehousing.

Like the neighborhood branch bank, the field warehouse is a creation for the convenience and economy of the outlying depositor. It is employed by the manufacturer in providing his banker with warehouse receipts in instances where it would be economically impractical to place the goods to be hypothecated in a warehouse far removed from the plant. Stripped of details, it consists of a public warehouseman establishing a branch public warehouse at the plant of the manufacturer and taking absolute custody of certain commodities to be used as collateral for a loan. Hundreds of field warehouses are now in operation, enabling the securing of loans with over 200 different commodities.

#### A FIELD FOR THE BANKER

THE amount of raw materials and finished products available for use in securing loans reaches into the billions of dollars. In fact it seems the exception rather than the rule for the producer or manufacturer of staples not to show the greater portion of his current assets as "inventory" on his balance sheet. Naturally, the ability to utilize this source of security opens a fertile field for the banker through enabling him to be of greater assistance to manufacturer and producer.

The self-liquidating attitude is emphasized by acceptance figures based on warehouse receipts, for in spite of a total volume of $1,485,000,000 in acceptances in 1931, the average amount outstanding during the year was only $257,000,000, showing a turnover of approximately 5.8 times.

Another characteristic of the loan secured by warehouse receipts is its constant condition of being practically a liquid asset in the hands of Federal Reserve member banks, and they may rediscount such loans as desired and render most of the fund involved available for re-use.

Still another virtue is the fact that

title to goods covered by a bona fide public warehouse receipt goes with the receipt. The passing of the title to the goods applies both to the negotiable and the non-negotiable types, so that the more desirable receipt in this respect depends upon the likes and requirements of the one who is to accept it.

### NON-NEGOTIABLE RECEIPTS

MANY people assume that a negotiable receipt is more flexible and convenient than a non-negotiable receipt. This is true only when the receipt passes through a number of hands. Otherwise the non-negotiable is preferable in every detail. It is made out to the lending bank, indicating specifically that the goods called for are deliverable only to the party named thereon upon presentation of the warehouse receipt or the issuee's order. If partial releases are to be made, and this is usually the case, an order from the holder of the receipt is all that is necessary.

In the case of the negotiable receipt, partial releases require presentation to the warehouseman. In a space provided on the back of the warehouse receipt, the warehouseman writes the new balance after each release and certifies its correctness with his signature or that of a duly authorized agent.

While loss of negotiable instruments is not a frequent occurrence, it is always a possibility and it results in more or less trouble and inconvenience, usually requiring for an indefinite period the posting of a surety bond equal to double the value of the merchandise involved. This is one more reason for using non-negotiable receipts wherever possible.

Desirable as warehouse receipts are as collateral when they cover goods of a staple nature, and positive as they may be when issued as security under proper circumstances, it would be a mistake not to mention that an enthusiasm which takes no notice of the certainty of their validity is apt to be disastrous and to prove an undesirable initiation to their use.

Anybody can issue what he may choose to call a warehouse receipt, but he cannot endow the instrument with the protective virtues afforded actual warehouse receipts by the Uniform Warehouse Receipts Act unless he really follows the business of warehousing as a gainful pursuit.

In addition to the actual security through basing loans on warehouse receipts, a desirable loan feature is found in the self-liquidating nature of loans which use, as collateral, commodities in the orderly process of being marketed. Raw materials and finished products held under warehouse receipts must be released as needed for manufacture or delivery on sale. For the pledgor of the goods to accomplish this, it is necessary for him to effect a proportionate reduction in the size of the loan secured by merchandise.

The condition out of which the invalid warehouse receipt is most likely to arise is what is becoming known as "subsidiary warehousing." This is the result of a desire for the borrowing advantages afforded by the use of public warehousing without actually doing any. The A.B.C. Manufacturing Company engaged in the production of some staple commodity, for example, forms the X.Y.Z. Warehouse Company. While the personnel structure of the two companies is frequently the same, there may be little duplication of names to keep them as separate-looking as possible. Usually, and fortunately so, deception does not play as large a part in the utilization of the subsidiary warehouse as ignorance—ignorance of the fact, as stated in the foregoing, that the validity of warehouse receipts hinges upon their having been issued by someone who is engaged in the public warehouse business as a gainful pursuit and, further, that satisfactory bailment cannot be effected without independent, financially disinterested, third party custodianship.

### RESERVE BANK CIRCULAR

THE status of the subsidiary warehouse receipt is shown by the fact that loans based on such are not eligible for rediscount at the Federal Reserve banks, nor may bankers' acceptances be based on receipts issuing from the subsidiary warehouse, whether it be so designated or not. Circular No. 32, effective June 1, 1930, issued to members of the Federal Reserve Bank of San Francisco more or less typifies the general attitude of the Federal Reserve banks as regards the non-public warehouse receipt, viz:

"For use as collateral, warehouse receipts must be negotiable in form and endorsed in blank, whenever an endorsement is necessary to pass title. The warehouseman issuing the receipt *must be entirely independent of the borrower* pledging such receipt, and *must not have any financial interest in the goods* described in the warehouse receipt except to the extent of the usual lien for storage charges, etc. The high collateral value generally accorded to an independent warehouse receipt is due to the belief that the warehouseman has no interest to conflict with his obligation as a warehouseman."

Notes, drafts or bills of exchange supported by warehouse receipts issued by warehousemen who are not entirely independent of the borrowers are not acceptable. Fortunately, the use of subsidiary warehousing has never met with much enthusiasm among bankers in general.

# Advertising Objectives

By Wade G. Murrah

(CONTINUED FROM PAGE 18)

decided by individual banks in individual localities. America will prosper again as each individual making up America prospers. Every individual in this country will end this depression for himself, for his household and for his company; and when he does, it will be ended for everyone else. But what every individual and every bank does toward the desired end is of definite service to every other individual and every other bank. It is easy to visualize the progress which can be made within the next few months by the banks of the South using this tool of publicity which they hold in their own hands for a definite movement in the same direction at the same time. Incidentally, a great service towards the co-ordinating of publicity efforts and ideas of banks of the whole country is being rendered by the Financial Advertisers Association, embracing in its membership our leading financial institutions.

### A GREATER SERVICE

ONE can visualize, too, the effect that such a program would have, not only on banks alone, but on our whole economic and business situation. Confidence in the present and faith in the future make business good. The American people have come too near to losing faith in all American institutions, and in all values, and in all stability. Consequently, in accomplishing our objective for banks, we will at the same time perform the even greater service of restoring to the American people that confidence in their nation and its ultimate destiny, which is the rightful heritage.

It has been said that due to the psychological make-up of our people, the United States is the best place in the world to start a boom or a depression. Why, then, shouldn't it be a good place to start a movement towards sound progress and prosperity, and why isn't this the time to begin?

We can do well to resell America to Americans, Georgia to Georgians, Alabama to Alabamans, and Virginia to Virginians. The means is within our own hands, and the goal is worth striving for. In addition to our economic difficulties, we have had a great mental depression, and a great spiritual depression. We have murmured against the Government and blamed our troubles on everyone else. Now we are all beginning to get a new perspective, and to understand

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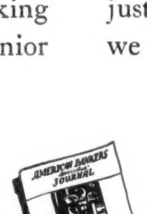
* * *

We have an excellent opportunity to see and study a great deal of bank advertising. We have some definite ideas as to how the JOURNAL's pages can be used advantageously by many banks who perhaps have never thought of doing any advertising outside of their own local newspapers.

The JOURNAL's advertising pages can be turned to profitable use by you regardless of the size of your city or of your bank.

If you are looking ahead to the future of your own bank and would like to have us tell you more about these advertising ideas of ours just address the Advertising Department and we will send them to you promptly.



*MORE and more large companies are turning to the JOURNAL as a route to men of influence! Perhaps one of the companies in which you are interested might find the JOURNAL a valuable advertising medium in 1933. Tell them about it.*

**AMERICAN BANKERS Association JOURNAL**

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ALDEN B. BAXTER, *Adv. Mgr.* . . . . . New York
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# INDEX TO ADVERTISERS
## OCTOBER, 1932



that we could slide down the toboggan, but now that we have come to the hill on the other side, it doesn't flatten out but has to be climbed. In our present circumstances I am reminded of the story of the journey of the Children of Israel from Egypt towards the Promised Land—how they were served well by their leaders, and were favored by God even to the extent of being fed manna from Heaven. But they murmured because of a few difficulties encountered, and were afraid of the giants that lived in the Promised Land—all except two of them, Joshua and Caleb. Then you remember what happened to those people. Not a soul of that generation ever saw the Promised Land except two—Joshua and Caleb—who were willing to fight for it.

It is my belief that we in the banking business in the South are nearing the Promised Land of renewed confidence and greater security. Certain it is that we can make it so.

## Advertising Objectives

**By Allan Herrick**

(CONTINUED FROM PAGE 19)

in his factory's house publication.

We have curtailed free services in operating departments. The list should be reduced in the advertising department as well. If we have a surplus above the cost of doing business, let us give it back to the customer in the form of better service, not in gifts.

7. More Tests, Fewer "Flops." Let us spend no money on new ideas until we are sure they are really good. When the big idea is set in type, enlarged photographically and put in a front window or a frame in the lobby, we can soon find out if it is the knockout it is supposed to be. See if it attracts readers. A good idea properly displayed will stop and hold 2 per cent of those who pass. A poor advertisement stops far less. Some remain on display for weeks without attracting a single reader. It takes but a little time to try out an idea in small space or on a small list. The time is well spent.

8. Cultivation of Good Will of Attorneys. Bad feeling between trust departments and attorneys is death to new business. A good attorney and a good bank are both necessary to proper estate settlement. The two must work together harmoniously. The trust field is large. Trust advertising practices that incur the displeasure of the Bar should be discontinued. Many good trust promotion methods are not objectionable to attorneys. Why use methods that are?

# How the A. I. B. Is Extending Its Investment Study Program

## New Textbooks Are Based on Recent Credit Changes

By
**DR. HAROLD STONIER**

**"Many do not like the present state of affairs in banking and they sigh for the good old days of short-term local loans and self-liquidating commercial paper," says Dr. Stonier, who is National Educational Director of the American Institute of Banking. "However, we are confronted with facts, not fancies, and the Institute proposes to do its part to help banks meet their obligations both to banking and to the public through a better trained investment mind"**

•

IN line with its policy of building textbook material to meet the training requirements of modern banking, the American Institute of Banking is bringing out this month the first of two new volumes on investments and finance. The Institute is basing its enlarged investment study program on the fact that the credit structure of the bank's portfolio has changed considerably in recent years.

At the time the original text on investments was produced, a large part of the average bank's credit activities was concerned with local loans to merchants and others, or with loans to well known commercial paper names whose paper was available in great quantities and had a high rating from the standpoints of safety and ready liquidity. These loans were comparatively simple to make, and the commercial paper was easy to buy. For the most part, a banker had only to follow well established precedents in either case in putting his available funds to work.

Now the picture has changed. National banks have in the neighborhood of 60 per cent of their credit structure built around stocks and bonds of one kind or another. The investment judgment of the banker is being tested as never before in the national bank field.

The trust companies of the country recently had nearly $8,000,000,000 in securities. This means that executives in this division of American banking had over 64 per cent of their credit funds directly concerned with investment problems.

State commercial banks have not experienced the urge to use their credit funds in investments to the same extent as have the national banks and trust companies. However, in spite of the demands for local loans made on these institutions, they have built nearly 40 per cent of their credit structure around investments.

These facts indicate the degree to which the banking public is now bringing this new kind of business to the banks. Old-time local loan and commercial paper activities have been superseded by transactions which today demand investment discrimination of a superior character by the banker. To be sure, a large volume of these investments represents government financing of one kind or another, but general business has tended in recent years to finance its needs with security issues instead of bank loans.

A security issue has certain characteristics which the new texts of the Institute recognize and discuss.

First, its legal form—important, and technical. If the security is illegal as to its form, nothing else about it can make it right.

### THE FACTS AND FIGURES

THEN, factual analysis. The whole story of facts and figures in the background of the investment must be carefully surveyed, and the tests of the different classes of securities are discussed in detail. A bond may be correct as to form, and its major business facts may be accurate in so far as the particular business unit against which the bond is issued is concerned. However, a comparatively insignificant factual defect, which only careful analysis is able to reveal, may jeopardize the whole transaction and endanger the bank's funds.

The Institute's new texts proceed on the theory that every investment transaction in which the bank is concerned is surrounded by great risk, and that a trained, competent and discriminating personnel is the bank's real insurance against loss.

Finally, the economic implications involved in a particular issue must be surveyed. The security may meet the tests of form and fact in so far as the present is concerned, but the business in which the bank is asked to place its investment funds may be in the backwash of economic currents and the trend may be definitely unfavorable.

A number of business units which several years ago offered and sold long time credits in the form of investment issues of various kinds have now been considerably changed by fashion or by new invention or by the perfection of processes upon which they were based. The economics of a dynamic society have swept them and their obligations almost into oblivion, and investors have suffered great losses.

Much stress is therefore placed on the economics of investment, and the study of this phase of the subject becomes of great concern to banking as it undertakes to build a credit structure in this day when the investment function looms so large in business undertakings.

Many do not like the present state of affairs in banking and they sigh for the good old days of short-term local loans and self-liquidating commercial paper. However, we are confronted with facts, not fancies, and the American Institute of Banking proposes to do its part to help banks meet their obligations both to banking and to the public through a better trained investment mind.

The second text—devoted to the problems involved in the field of corporation finance and investments (Investments II), which is now being prepared—will be introduced in the fall of 1933 as another addition to the Institute's program of investment study.